

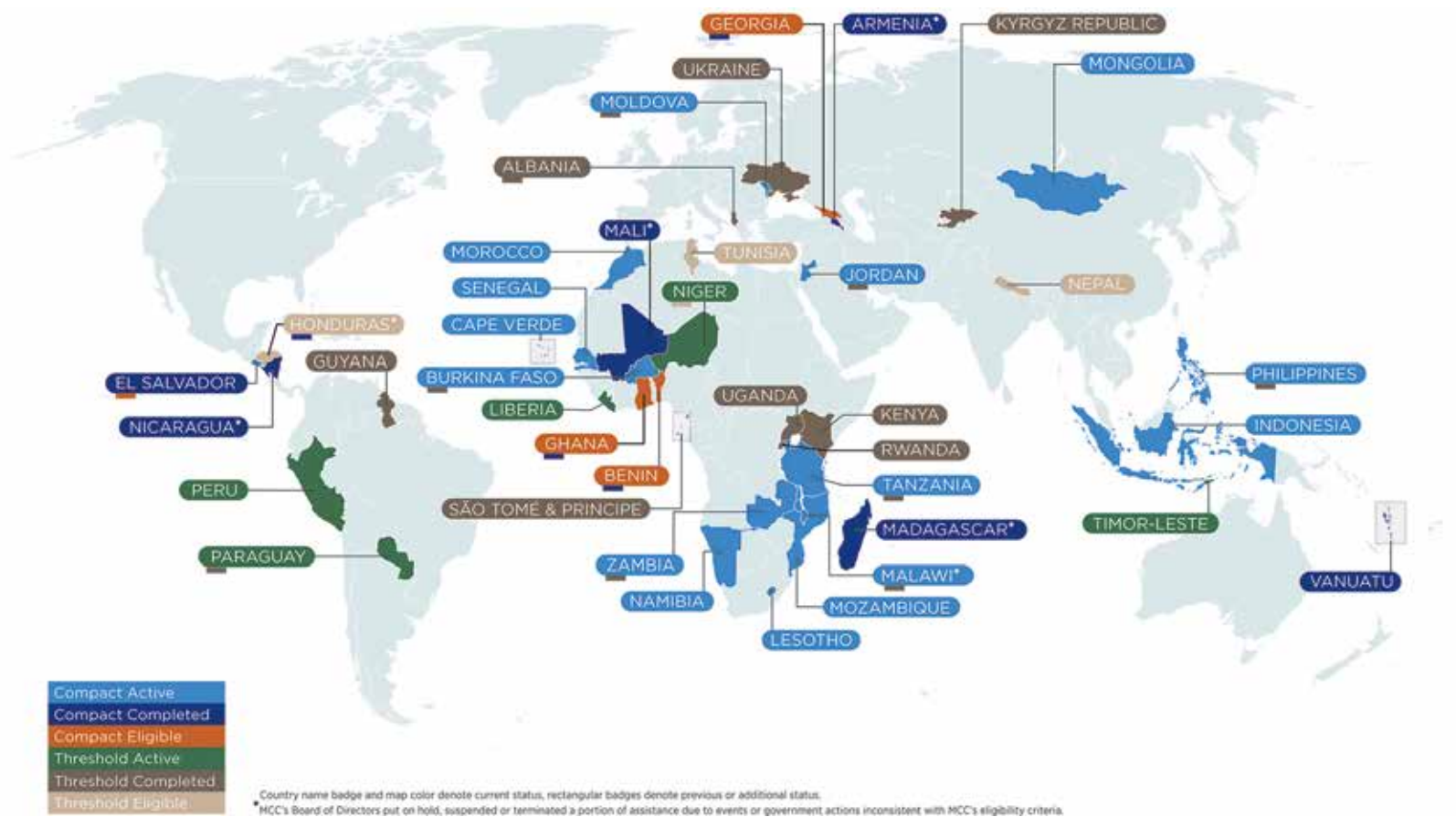
# Agency Financial Report Fiscal Year 2012

October 1, 2011–September 30, 2012



MILLENNIUM  
CHALLENGE CORPORATION  
UNITED STATES OF AMERICA





## MCC Partner Countries — Compacts and Threshold Programs

MCC has worked with partners in the countries shown on the map above to help reduce poverty through economic growth.



# **Agency Financial Report**

**Fiscal Year 2012**

October 1, 2011 – September 30, 2012





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# Introduction

The Millennium Challenge Corporation's Agency Financial Report for fiscal year (FY) 2012 provides fiscal and high-level performance results that enable the President, Congress, and American people to assess MCC's performance for the reporting period October 1, 2011, through September 30, 2012. It provides an overview of MCC's programs, accomplishments, challenges, and management's accountability for the resources entrusted to MCC. This report was prepared in accordance with the requirements of the Office of Management and Budget's (OMB's) Circular No. A-136, *Financial Reporting Requirements*.

MCC has chosen to produce an Agency Financial Report and an Annual Performance Report. The FY 2012 Annual Performance Report will be included in MCC's Congressional Budget Justification, which will be issued and posted on MCC's website on February 4, 2013. Together, these documents present the results of the annual assessment of program leadership and stewardship of the resources and public funds entrusted to MCC and a comprehensive snapshot of the most important financial information related to MCC's programs. MCC also issues an Annual Report and other documents regarding its activities to its Board of Directors, to stakeholders, and to the public on its website.

For more information  
about MCC, visit  
our website at:  
<http://www.mcc.gov>

## How This Report is Organized

This Agency Financial Report includes a message from the Chief Executive Officer (CEO), followed by three sections and appendices:

- **Section I: Management's Discussion and Analysis** describes MCC's mission and organizational structure; strategic goals and highlights of accomplishments; analysis of the financial statements and stewardship information; systems, legal compliance and controls; and other management initiatives and information.
- **Section II: Financial** contains a message from the Vice President, Division of Administration and Finance and Chief Financial Officer, the independent auditor's report, and the financial statements and notes.
- **Section III: Other Accompanying Information** includes MCC's *Improper Payments Information Act (as amended by the Improper Payments Elimination and Recovery Act)* reporting details, the summary of financial statement audit and management assurance findings, the Office of Inspector General's summary of top management challenges, and MCC management's response to those challenges.
- **Appendices** include a list of acronyms used in this report, a summary of MCC's compact and threshold programs, MCC's country selection process and criteria, and a list of useful websites for additional information about MCC.



## **MCC Welcomes Your Comments**

MCC welcomes comments and suggestions regarding this report. Please contact MCC at:

<https://www.mcc.gov/pages/contact>

or

875 Fifteenth Street, NW  
Washington, DC 20005-2221  
(202) 521-3600.

The Millennium  
Challenge Corporation  
is an innovative  
and independent  
U.S. foreign aid agency  
that is helping lead  
the fight against  
global poverty.

November 12, 2012

I am pleased to present the Millennium Challenge Corporation's (MCC) 2012 Agency Financial Report (AFR). As an innovative and independent United States foreign aid agency that is fighting global poverty through economic growth, MCC optimizes the effectiveness of limited development resources by partnering only with countries committed to good governance, designing and leading their own projects, and delivering tangible and sustainable results to benefit the poor.

This year's AFR underscores that MCC operates with complete transparency and fiscal accountability as partnerships are developed worldwide. MCC is committed to its fiduciary responsibility, to being a prudent steward of U.S. taxpayer dollars, and to the world's poor who want to break the cycle of aid dependency. MCC promotes sound democratic and economic governance and seeks to help partner countries replace aid with investments from private enterprise—the ultimate engine of economic growth.

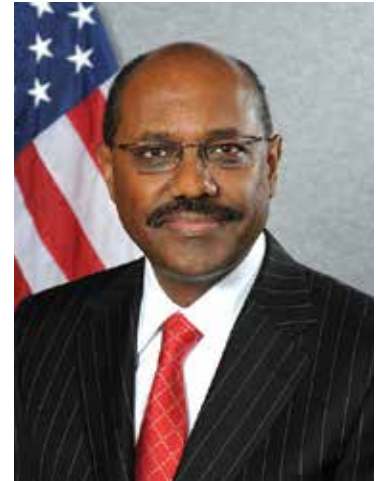
Major milestones in 2012 include completing compact programs with Benin, Ghana, and El Salvador. The MCC-funded renovated port in Benin has already attracted over \$100 million in complementary private investment. New highways in Ghana and El Salvador are providing businesses with dependable outlets to markets. Through MCC-funded training and technical assistance, farmers and entrepreneurs in these countries have improved skills to create lives of greater opportunity and self-sufficiency.

MCC also released its first set of independent impact evaluations, which used rigorous statistical methods to measure changes in project participants' farm and household incomes. The first five impact evaluations—for farmer training activities in Armenia, El Salvador, Ghana, Honduras, and Nicaragua—reflect a small portion of MCC's investment and evaluation portfolios, but offer valuable lessons and a first look at how MCC uses evaluations for accountability, learning, and improving development work.

Compact completions and independent evaluations of compact projects reflect MCC's commitment to delivering sustainable economic growth. The financial and performance information presented in this AFR helps to tell the story of MCC's impact on global poverty, and is fundamentally complete and reliable.

In fiscal year 2012, for the second year in a row, MCC received an unqualified or "clean" opinion on its financial statements. The opinion rendered by MCC's auditors reaffirms our dedication to fulfilling our fiduciary responsibility to the American public in managing the resources entrusted to us in compliance with applicable laws and rigorous accounting standards.

The independent auditors also noted one material weakness and three significant deficiencies in internal controls over financial reporting. We take these issues seriously and will aggressively work toward their resolution. Please see my annual



**Message from  
the Millennium  
Challenge  
Corporation's  
Chief Executive  
Officer**

assurance statement included in this AFR for more information regarding these weaknesses and MCC's compliance with the appropriate financial laws and regulations.

I invite our key stakeholders to follow MCC's work, share critical feedback, and to hold us accountable for the progress we are making in the fight against global poverty. This is how MCC continues to contribute to U.S. global development efforts.

/ s /

**Daniel W. Yohannes**

CHIEF EXECUTIVE OFFICER





# Management's Discussion and Analysis





# Mission and Organizational Structure

## Mission

The *Millennium Challenge Act of 2003*, contained in Title VI, Division D, of Public Law 108-199 (the *Consolidated Appropriations Act, 2004*), established MCC as a wholly-owned Government corporation as defined by the Government Corporation Control Act. MCC's mission is to reduce poverty by supporting sustainable economic growth in developing countries that create and maintain sound policy environments. MCC selects only those countries committed to strengthening good governance, encouraging economic freedom, and promoting investments in people as demonstrated through independent assessments. Through the country-created Millennium Challenge Account (MCA), MCC provides assistance that is intended to stimulate economic growth and alleviate extreme poverty. To ensure accountability, MCC rigorously plans, tracks and monitors results to determine the long-term effect of investments.

Assistance programs are developed by the individual countries to build their own capacity for delivering solutions to their citizens. These programs have focused on policy, institutional and infrastructure improvements in the following sectors:

1. Transport (road, water and air)
2. Agriculture and irrigation
3. Water supply and sanitation
4. Banking and financial services
5. Energy
6. Health, education and community services
7. Governance
8. Business environment

MCC's programs complement other U.S. and international development programs. MCC works closely with the Department of State and USAID to develop and implement its programs. Strengthening the next generation of emerging markets that will trade and do business with American companies can lead to job creation in the United States. As emerging economies prosper, they become more stable and secure, which promotes America's national security interests.

MCC provides assistance through two types of large-scale grants to eligible countries:

- A **compact** is a large, 5-year grant to a country that meets MCC's eligibility criteria. It funds specific programs targeted at reducing poverty and stimulating economic growth. To obtain a compact, a country identifies its priorities and develops a proposal in broad consultation within society. MCC teams then work in close partnership to help the country refine a program. When a country is



awarded a compact, it sets up a local accountable entity (MCAs) to manage and oversee all aspects of implementation.

- A **threshold program** is a country-driven partnership that aims to assist a country to become eligible for an MCC Compact by supporting policy and institutional reforms that target binding constraints to economic growth. A threshold program is developed through a rigorous, structured diagnostic process followed by program design and implementation. Under the new threshold program model, MCC will administer programs directly. Current threshold programs under the old threshold program model are administered through USAID.

Appendix B provides a summary of MCC’s compact and threshold programs.

Country Selection Process

The hallmark of MCC’s country selection process is transparency. MCC uses a four-step process to select countries as eligible for assistance:

1. Identify candidate countries.
2. Publish selection criteria and methodology for country selection and accept public comment.
3. Issue candidate country scorecards.
4. Select countries eligible for MCC program assistance.

Appendix C describes the selection process and the criteria in greater detail. MCC uses 20 third-party indicators, which fall under one of three categories: ruling justly, economic freedom and investing in people.

MCC Selection Criteria for FY 2012		
Ruling Justly	Economic Freedom	Investing in People
<ul style="list-style-type: none"><li>• Civil Liberties</li><li>• Political Rights</li><li>• Freedom of Information</li><li>• Government Effectiveness</li><li>• Rule of Law</li><li>• Control of Corruption</li></ul>	<ul style="list-style-type: none"><li>• Inflation</li><li>• Fiscal Policy</li><li>• Business Start-up</li><li>• Trade Policy</li><li>• Regulatory Quality</li><li>• Land Rights and Access</li><li>• Access to Credit</li><li>• Gender in the Economy</li></ul>	<ul style="list-style-type: none"><li>• Public Expenditure on Health</li><li>• Public Expenditure of Primary Education</li><li>• Immunization Rates</li><li>• Girls’ Primary Education Completion (Lower Income Countries only)</li><li>• Girls’ Secondary Education Enrollment (Lower Middle Income Countries only)</li><li>• Child Health</li><li>• Natural Resource Protection</li></ul>

MCC is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people that promote economic growth. In making its determinations, MCC's Board of Directors considers three factors: performance on the defined policy criteria, the opportunity to reduce poverty and generate economic growth in the country, and the funds available to MCC. MCC selects countries eligible to receive MCC funds through a rigorous evaluation process. This process uses third-party indicators to assess countries' policy environments and determine in which countries MCC funding will be effective in reducing poverty and promoting economic growth. The MCC selection process has four major steps:

1. **Identification of Candidate Countries** — Candidate countries for the fiscal year are identified based on their per capita income and whether they are legally eligible to receive U.S. economic assistance.
2. **Publication of MCC's Selection Criteria and Methodology** — MCC submits a report to Congress describing the criteria and the methodology—including the indicators—that MCC's Board of Directors will use to select eligible countries.
3. **Publication of MCC Country Scorecards** — Before the MCC Board meets to select compact-eligible countries, MCC publishes its country performance scorecards on its public website for all candidate countries and countries that would be candidates but for legal prohibitions.
4. **Selection of Compact-Eligible and Threshold-Eligible Countries** — From the pool of candidate countries, the MCC Board selects compact-eligible countries according to the methodology described above and submits a report to Congress no later than five days after the determination. These countries are then eligible to begin developing compact proposals for MCC's consideration.

MCC reviews all of its performance indicators annually to ensure the best measures are being used and, from time to time, makes changes or refinements if MCC identifies better indicators or improved sources of data. For FY 2012, MCC implemented a number of changes that modify the overall evaluation of candidate country performance, as described in MCC's *Selection Criteria and Methodology Report, FY 2012*.

If you are reading a paper copy of this document, you will find the *Selection Criteria and Methodology Report, FY 2012*, at the following MCC website address: <http://www.mcc.gov/documents/reports/report-2011001066202-fy12-selection-criteria.pdf>.

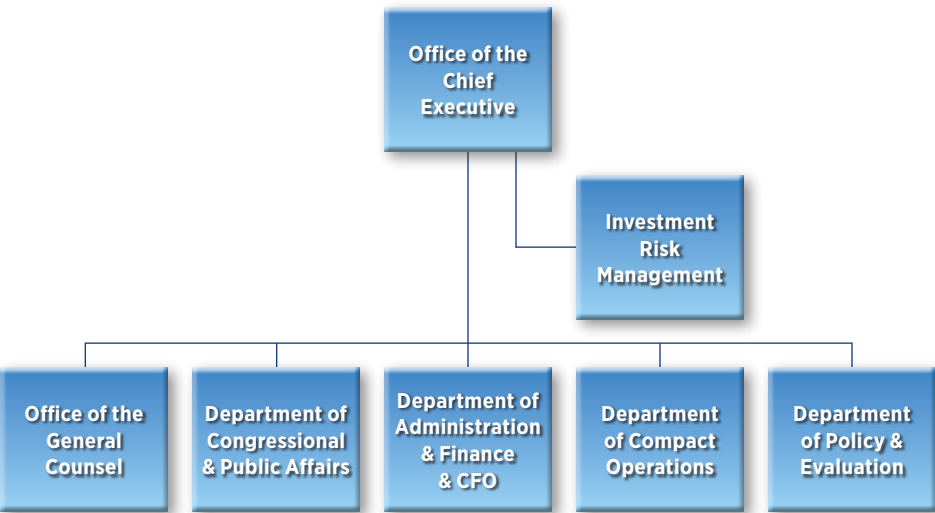
## Eligibility Oversight

MCC evaluates its partner countries' policy performance throughout implementation of the compact or threshold program in coordination with the Department of State, USAID and the U.S. Embassies. A country can be warned, or its eligibility may be suspended or terminated for a significant policy decline or policy reversal or a pattern of actions inconsistent with the eligibility criteria.

Organizational Structure

MCC is managed by the CEO, who is part of the nine-member Board of Directors. The Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, and the Administrator of the USAID serve on the board along with four private sector representatives appointed by the President of the United States with the advice and consent of the U.S. Senate.

The Secretary of State is the Chair of the Board and the Secretary of the Treasury is the Vice Chair. MCC’s organization chart is shown below.



MCC is a small government corporation with its headquarters in Washington, DC. Staffing levels since FY 2009 are shown in the table below.

MCC Staffing — Full Time Equivalent (FTE)*				
	FY 2012	FY 2011	FY 2010	FY 2009**
Headquarters	259	251	251	248
Overseas	30	31	33	35
Employees	289	282	284	283

\*Staffing report based on SF-113A and SF-113G reporting of FTE calculations based on quarter 4 of each fiscal year.

\*\*Overseas FTE calculation for FY 2009 based on number of employees overseas as September 30 rather than a calculated total due to changes in the SF-113 format.

MCC is organized into six components:

1. The **Office of the CEO** is responsible for overall management of MCC. The CEO provides executive leadership and direction and serves as MCC's focal point for outreach to other countries. Principal officers include the CEO, Chief of Staff, Senior Advisor, Senior Investment and Risk Officer, and Executive Secretary.

The Office of the CEO coordinates activities and communications across departments; supports the CEO; coordinates and facilitates strategic planning, investment and risk management at the agency level, and knowledge sharing and innovation initiatives; manages MCC's Investment Management Committee; and oversees MCC's external reporting to the Congress, OMB, the Government Accountability Office, and the Inspector General. MCC does not have its own independent Office of Inspector General; the Inspector General at USAID fulfills the role of MCC's Inspector General.

2. The **Office of General Counsel** provides advice to MCC's Board of Directors and MCC staff on all legal issues affecting MCC, its programs, policies, and procedures. It performs the function of Corporate Secretary to the MCC Board of Directors and manages MCC's ethics program, providing related training and guidance to staff.
3. The **Department of Administration and Finance and Chief Financial Officer** plans and directs all activities related to financial management and budgeting; manages MCC's human resources; oversees information technology (IT) infrastructure and services; enters into and manages all MCC contracts, acquisitions and grants; preserves personnel and physical security; coordinates and manages MCC's facilities and provides administrative services; maintains official corporate records; coordinates audit interactions with the Inspector General and the Government Accountability Office; and coordinates and ensures timely and relevant reporting of performance data on compact programs.
4. The **Department of Compact Operations** manages the day-to-day operational relationship with countries eligible to develop compacts and with countries that have signed compacts with MCC and are implementing programs. It assists partner countries to prioritize investments to address constraints to economic growth; identifies, in partnership with countries, potential areas for collaboration with other development agencies and the private sector; provides technical and regional expertise to ensure rigorous oversight of U.S. Government resources; promotes MCC core standards of accountability by providing technical expertise in education, fiscal accountability, infrastructure, agriculture, land tenure and property rights, procurement, environmental, social performance, social and gender

integration, private sector engagement, and health; and tracks and reports on the performance of MCC compact programs by collecting and analyzing performance measurement data. This department also oversees the MCC staff residing in MCC missions in compact countries and sends Washington, DC-based specialists to compact countries to offer technical support to formulate and implement sector policy reforms and selected investment programs.

5. The **Department of Congressional and Public Affairs** manages MCC's relationship with the U.S. Congress, other U.S. Government agencies, the media, universities, non-governmental organizations, think tanks, the private sector, and other key groups interested in MCC's mission. This department handles all media inquiries and interview requests, manages the MCC speaker's bureau, coordinates all public events, serves as a liaison to staff of MCC's Board of Directors, maintains MCC's public and internal websites, and disseminates information to the public via statements, press releases and speeches.
6. The **Department of Policy and Evaluation** manages MCC's annual country eligibility process for compact and threshold programs; oversees the development and implementation of MCC threshold programs; assists partner countries to identify constraints to economic growth; supports policy improvement in MCC's compact and threshold operations; manages the technical economic analysis that underpins MCC's engagement with partner countries, and the development and conduct of monitoring and evaluation plans, including oversight of independent evaluations of MCC programs; manages MCC's results agenda and contributes to MCC's learning agenda by sharing lessons learned and best practices internally, internationally and among U.S. Government agencies; and by monitoring trends in global development policy.

# Performance Goals, Objectives, and Results

MCC will provide its Annual Performance Report as part of its Congressional Budget Justification, which will be available February 4, 2013.

## Strategic Direction

MCC's mission is to reduce poverty by supporting sustainable economic growth in selected developing countries that demonstrate a commitment to sound policy in the areas of democratic governance, economic freedom and investment in people. This is a long-term mission, focused on addressing issues of persistent poverty and underdevelopment in lower and lower-middle income countries facing critical challenges of capacity, resources and institutional weakness. MCC seeks through its programs to demonstrate the effectiveness of linking foreign development assistance to demonstrable economic outcomes by concentrating on four key principles outlined in MCC's Strategic Plan 2011–2015:

1. **Results matter** — success is measured by results, not inputs.
2. **Policies matter** — good policies are critical to achieving sustainable economic growth.
3. **Country ownership matters** — country partner responsibility for results is essential for achieving sustainable development and reducing dependence on foreign assistance.
4. **Accountability matters** — without accountability there is no true responsibility and without transparency there is no accountability.

To implement these principles, MCC identified the following broad themes for the 5-year period covered by its strategic plan:

1. Apply effective instruments for results tracking that will support transparent results reporting.
2. Focus on policy reform as the best guarantor of sustainable development.
3. Leverage MCC's assets by working with partners to enhance the impact and reach of MCC programs, especially with the private sector.
4. Integrate gender and social assessment into all aspects of program design and implementation.
5. Ensure that MCC has the organizational capacity to respond effectively to evolving challenges.

Prior to the beginning of each fiscal year, MCC carries out an exercise focused on identifying priority areas of concentration for each fiscal year. These areas of concentration are intended to elaborate on, not replace, the overarching principles. The process for identifying them is both top-down and bottom-up. Informed by feedback from staff at all levels, the senior management team meets to discuss

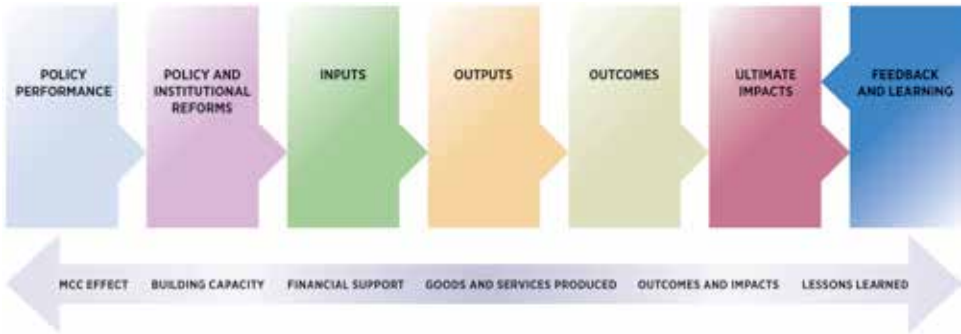


experiences over the past year in relation to the strategic plan and the previous year’s goals and priorities. It determines what the specific areas of attention should be for the coming year. Each department carries out an intensive departmental planning exercise to clarify its detailed goals and objectives. Senior management reviews the plans to ensure that the corporate and departmental goals and priorities are clear and integrated effectively. These goals and priorities serve as the basis for individual performance planning as well as for management of the agency’s business during the course of the year.

**MCC’s Approach to Performance Measurement**

MCC is committed to delivering results throughout the entire lifecycle of its investments. From before investments begin to their completion and beyond, MCC’s robust and comprehensive “continuum of results” framework seeks to measure, collect and report on policy reforms associated with MCC compact eligibility and program investments, inputs and outputs that indicate whether projects are on track, interim outcomes as programs reach completion, and impacts as measured through independent evaluations.

The diagram below shows the continuum framework; the table explains each step along the continuum.



MCC's Continuum of Results	
Step	Description
<b>Policy Performance</b>	The first result along the continuum is often the “MCC Effect,” when countries enact policy reforms to improve performance on MCC’s indicators. Eligibility for an MCC compact is regarded as a seal of approval, signaling to private investors that the country is well-governed and open for business. MCC’s option to suspend or terminate funding if a partner country’s policy performance deteriorates significantly, which has been used in response to governance concerns, creates an incentive for ongoing policy and implementation performance to deliver on the entire continuum.
<b>Policy and Institutional Reforms</b>	During compact development, MCC and partner countries examine the policy and institutional environment to assess areas that might limit private sector investment or the impact and sustainability of MCC’s investments. MCC and the partner country then plan appropriate policy and institutional reforms. Reforms may include changes to national policies, laws, regulations, or even ways of doing business, and often focus on building capacity within existing national institutions.
<b>Inputs</b>	While MCC’s primary input is financial support for investments that promote poverty reduction and economic growth, it also contributes technical/ professional support for oversight and policy dialogue. MCC and its partner countries analyze constraints to growth, cost-benefits, and beneficiaries to identify which investments best raise local incomes and generate long-term economic benefits. To safeguard MCC investments, partner countries must adhere to international standards in financial management and procurement. Where necessary, they use external financial and procurement agents.
<b>Outputs</b>	Outputs measure the goods or services produced by a program (e.g., kilometers of roads or irrigation canals built, farmers trained or land titles issued). MCC and its partner countries establish targets and track progress on outputs to ensure accountability and facilitate mid-course corrections as needed.
<b>Outcomes</b>	Outcomes measure the medium-term effects of a program (e.g., increased traffic volume on improved roads, new business investments, increased production of high value crops, increased access to electricity or clean water, or increased school attendance). Outcomes drive increased income and poverty reduction.
<b>Ultimate Impacts</b>	MCC assesses if incomes went up because of an MCC investment, what worked best to increase incomes, and if the increases were achieved in a cost-effective way. MCC often uses independent impact evaluations to answer these questions, often comparing results from the people who participated in MCC-funded programs to those who did not to determine whether gains were the direct result of MCC’s investment.
<b>Feedback and Learning</b>	MCC applies lessons learned to maximize development effectiveness by working with partner countries to identify and address implementation challenges, keep current investments on track, and inform the design and implementation of future investments. MCC shares the results of all evaluations, even when they reveal that MCC investments did not achieve planned targets. MCC’s portfolio is open to scrutiny to foster learning internally, within the U.S. Government, and globally both about what programs work best to increase incomes, and what evaluation approaches work best to measure impact.

## Compact Amounts and Results

Twenty-five countries have received funding through a compact since MCC began operations. The total dollar amount for compacts with each country through September 30, 2012, is shown in the table below:

Value of MCC Compacts at End of FY 2012 (Dollars in Thousands)			
Compact Country	Compact Value	Compact Country	Compact Value
Armenia <sup>1</sup>	\$ 177,650	Malawi*	\$ 350,700
Benin <sup>1</sup>	301,810	Mali <sup>1</sup>	460,811
Burkina Faso	480,944	Moldova	262,000
Cape Verde <sup>1</sup>	110,078	Mongolia	284,911
Cape Verde II*	66,200	Morocco	697,500
El Salvador <sup>1</sup>	460,940	Mozambique	506,924
Georgia <sup>1</sup>	395,300	Namibia	304,478
Ghana <sup>1</sup>	547,009	Nicaragua <sup>1</sup>	112,703
Honduras <sup>1</sup>	205,000	Philippines	433,910
Indonesia*	600,000	Senegal	540,000
Jordan	275,100	Tanzania	698,136
Lesotho	362,551	Vanuatu <sup>1</sup>	65,404
Madagascar <sup>1</sup>	85,595	Zambia*	354,758
TOTAL			\$ 9,140,412

*Amounts displayed represent signed compact totals, net of deobligated amounts.*

*\*These compacts have not entered into force.*

*<sup>1</sup>Completed compacts have reached the end of the compact term.*

MCC aggregates results in key sectors to measure progress in those areas across compacts. Currently, aggregate results are calculated on a quarterly basis in five categories: roads, agriculture and irrigation, water and sanitation, education, and property rights and land policy (land).

Each category contains several measures; for example, agriculture and irrigation tracks 11 indicators. The table beginning on the next page presents MCC's program results by sector on select indicators. MCC posts additional data on these five categories on its website. The data are as of June 30, 2012, and June 30, 2011.

If you are reading a paper copy of this document, you will find MCC's complete monitoring and evaluation data by sector report at the following MCC website: <http://www.mcc.gov/pages/results/m-and-e#me-by-sector>

Program Results by Sector on Select Indicators							
Sector	Indicator	Cumulative Target Through FY 2012	Actual		Performance on Targets		Countries Tracked
			June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	
Roads	Value of signed contracts for road works	\$1,540 million	\$1,794 million	\$1,361 million	117%	87%	Armenia Burkina Faso Cape Verde El Salvador Georgia Ghana Honduras Mali Moldova Mongolia Mozambique Nicaragua Philippines Senegal Tanzania Vanuatu
	Kilometers of roads under works contracts	3,521	3,168	2,802	90%	88%	
	Kilometers of roads completed	1,659	1,595	1,247	96%	117%	
Agriculture and Irrigation	Hectares under new or improved irrigation	119,652	116,460	8,257	97%	10%	Armenia Burkina Faso Cape Verde El Salvador Georgia Ghana Honduras Madagascar Mali Moldova Morocco Mozambique Namibia Nicaragua Senegal
	Value of agricultural and rural loans	\$62 million	\$83 million	\$73 million	134%	145%	
	Number of farmers trained	210,845	202,351	186,395	96%	95%	
	Hectares under production	2,897	3,677	132,894	127%	101%	
Water and Sanitation	Value of signed contracts for water and sanitation works	\$259 million	\$285 million	\$142 million	110%	61%	El Salvador Georgia Ghana Jordan Lesotho Mozambique Tanzania
Education	Number of students participating	270,585	244,762	145,016	91%	75%	Burkina Faso El Salvador Ghana Mongolia Morocco Namibia
	Facilities completed	851	805	406	95%	57%	
	Value of signed contracts for construction and/or equipping of educational facilities	\$124 million	\$115 million	\$75 million	93%	92%	

Program Results by Sector on Select Indicators							
Sector	Indicator	Cumulative Target Through FY 2012	Actual		Performance on Targets		Countries Tracked
			June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	
Land	Number of stakeholders trained	26,014	19,301	18,001	74%	72%	Benin Burkina Faso Ghana Lesotho Madagascar Mali Mongolia Mozambique Namibia Nicaragua Senegal
	Urban parcels mapped	282,062	169,524	62,273	60%	58%	
	Rural hectares formalized	2,414,740	1,514,818	353,246	63%	84%	

## Discussion of Results

The chart above aggregates country-specific targets and performance data by sector. It represents only a fraction of the performance data that MCC collects and assesses on a quarterly basis. MCC and MCC's partner Millennium Challenge Accounts collaborate to establish these targets.

Some projects significantly increased their performance from June 2011 to June 2012. These increases were due to a variety of reasons. For example, the number of hectares under improved irrigation increased significantly because large works on the Alatona Irrigation Project in Mali were completed. Similarly, the number of educational facilities completed increased substantially due to the completion of construction in Ghana, Burkina Faso and Morocco.

There are only two indicators that show a decrease in performance against targets between June 2011 and June 2012: value of rural loans and rural hectares formalized. In the case of both indicators, this drop in the percentage of the targets achieved is due primarily to increases in the size of the relevant projects in several countries and the associated increases in the target numbers.

It is important to keep in mind that the data presented is through June 30, 2012. One additional quarter of data is to be reported against these targets, and as a result, additional indicators may achieve or surpass their FY 2012 targets.

MCC assesses performance data across all compact programs on a quarterly basis and where necessary takes action to address deficiencies, mitigate risks, and ensure that U.S. taxpayer funding is used effectively and responsibly.

## Analysis of MCC's Financial Statements

MCC prepared financial statements and notes, which were presented to the USAID Inspector General for audit by an independent accounting firm. The financial statements, notes and auditor's report are presented in their entirety in the Financial Section of this report. The following analysis provides a high-level summary of MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources.

### Balance Sheet

The balance sheet presents, as of a specific time, amounts of future economic benefits owned or managed by MCC (assets), amounts owed by MCC (liabilities), and amounts which comprise the difference (net position).

#### Assets

As of September 30, 2012, MCC reported total assets of \$5.49 billion, a decrease of approximately 10 percent from FY 2011's total assets of \$6.08 billion. MCC's Fund Balance with Treasury constitutes the vast majority (97 percent) of total assets. Other assets include Advances, Property, Plant and Equipment and Accounts Receivable. Nongovernmental advances decreased by \$38 million, or 20 percent, from FY 2011. MCC has very few capital assets in relation to total assets because it does not own its facilities or other real property and does not have capital leases. MCC established its capitalization thresholds at \$200,000 for IT equipment and \$50,000 for other fixed assets. As of September 30, 2012, MCC reported fixed assets of \$3.37 million, which were mainly leasehold improvements. The leasehold improvements are for enhancements made to leased office space at MCC headquarters in Washington, DC. Accounts receivable increased by over \$7 million, which was primarily the result of new receivables from the Ghana and Georgia compacts.

#### Liabilities

As of September 30, 2012, MCC had \$130 million in liabilities, which were amounts owed to its grantees, vendors, contractors, trading partners, and employees. Grant liabilities comprise more than \$106 million, or 82 percent, of MCC's total liabilities. Grant liabilities decreased by a net of \$169 million from FY 2011, primarily due to decreases related to closed compacts (\$136 million) and a change in MCC's estimating methodology (\$55 million), and increases due to new FY 2012 country accruals (\$22 million).



## Net Position

MCC's overall net position as of September 30, 2012, was \$5.36 billion, a decrease of \$410 million or 7 percent from FY 2011. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts and demonstrate the lag between appropriation, commitment and expenditure of compact funds.

## Statement of Net Cost

This statement shows MCC's net cost of operations, as a whole, by the major programs or appropriation fund categories. The table below describes each program.

MCC Appropriation Fund Categories	
Category	Source/Purpose
<b>Administrative</b>	Funds appropriated by Congress and apportioned by OMB for the purpose of operating expenses.
<b>Compact</b>	Funds approved by Congress, apportioned by OMB, and obligated by MCC to cover compacts between MCC and partner countries. Note: Under authority contained in section 609(g) of the MCC Act, MCC provides Compact Implementation Funds when a compact is signed to speed compact implementation by the partner country. OMB apportions grant funds for grants and cooperative agreements.
<b>609(g)</b> <i>(refers to section of MCC Act)</i>	Funds approved by Congress and apportioned by OMB to fund contracts or grants for the purpose of facilitating the development and/or implementation of a compact between MCC and a partner country.
<b>614(g)</b> <i>(refers to section of MCC Act)</i>	Funds approved by Congress that the CEO may use to contract with any nongovernmental organization (including a university, independent foundation, or other organization) in the United States or in a candidate country, and, where appropriate, directly with a governmental agency of any such country, that is undertaking research aimed at improving data related to eligibility criteria under this title with respect to the country.
<b>Due Diligence</b>	Funds apportioned by OMB and used by MCC to cover costs associated with assessing compact proposals developed by eligible countries and providing compact implementation oversight.
<b>Threshold</b>	Funds appropriated by Congress, apportioned by OMB, and used by MCC to help countries to become eligible for MCC compact assistance.
<b>Audit</b>	Funds appropriated by Congress and apportioned by OMB for audits of MCC operations and programs. The USAID Inspector General is responsible for conducting MCC audits.

During FY 2012, MCC incurred \$1.31 billion in net program costs, divided among the seven programs as shown in the table and chart below. Net program costs declined by \$350 million, or 21 percent, from FY 2011. The primary reason for the decline was a net decrease in Compact Program costs of \$320 million; Compact operations costs decreased in 13 countries by \$441 million, and increased in 11 countries by \$229 million. Also contributing to the decrease in net program costs was a decrease in compact accruals of \$168 million, which was partially offset by an increase in advance liquidations of \$61 million.

Threshold programs decreased by \$33 million, or 67 percent. The decrease is the result of no new threshold projects being initiated in FY 2011 or FY 2012. The projects started in FY 2010 and earlier have either been completed or are nearing completion. Costs have decreased because the numbers of projects in process have declined.

Net Program Costs (Dollars in Thousands)				
Program		FY 2012	FY 2011	% Change
Compact	\$	1,129,720	\$ 1,449,285	-22%
609(g)		21,734	28,825	-25%
614(g)		220	51	331%
Due Diligence		41,478	37,629	10%
Threshold		16,371	49,002	-67%
Audit		5,165	4,087	26%
Administrative		96,306	91,811	5%
<b>TOTAL</b>	<b>\$</b>	<b>1,310,994</b>	<b>\$ 1,660,690</b>	<b>-21%</b>

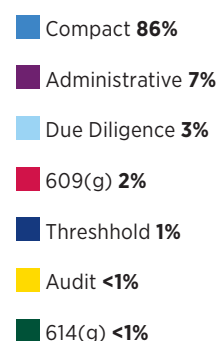
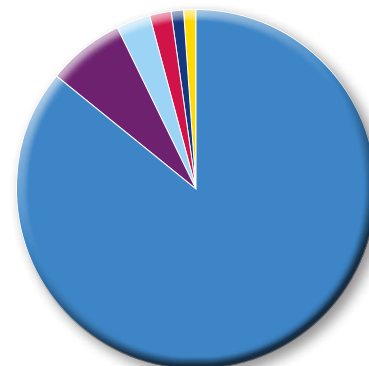
As the pie chart top right shows, 86 percent of MCC's expenditures were for compact activities. Administrative and audit program costs were only 8 percent of MCC's costs, while due diligence costs were only 3 percent. MCC's administrative net program costs of \$96 million included \$53 million for human capital costs and training, \$8.5 million for contracts, \$7.6 million for lease payments, \$9.4 million for IT investment, \$14.2 million for overseas expenses, and \$3.6 million for employee travel.

As the chart bottom right shows, the allocation of MCC's net program costs for FY 2011 were similar, with 87 percent of the costs dedicated to compact activities.

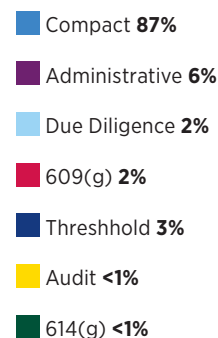
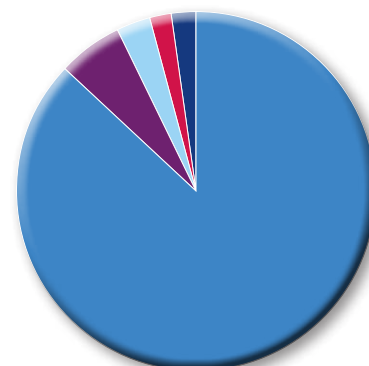
## Statement of Changes in Net Position

This statement shows the change in net position during the reporting period. MCC's net position at September 30, 2012, was \$5.36 billion, a decrease of \$410 million from September 30, 2011. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2012, Cumulative Results of Operations amounted to \$11 million, an increase of nearly \$6.2 million from September 30, 2011. This balance is the cumulative difference, for all previous fiscal years, between funds available to MCC from all financing sources and the net costs of MCC. The second component on net position, Total Unexpended Appropriations, amounted to \$5.35 billion, a decrease of \$417 million, or 7 percent, from FY 2011. This decrease was the result of a decrease in Appropriations Used in FY 2012 of \$342 million, which is primarily driven by compact activity and is not precisely uniform and predictable quarter-by-quarter or year-by-year.

FY 2012 Net Program Costs



FY 2011 Net Program Costs



## Statement of Budgetary Resources

This statement and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from an entity's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources has been revised to reflect a new format prescribed by OMB Circular A-136 *Financial Reporting Requirements*. The total amount displayed for the status of budgetary resources equals the total budgetary resources available to MCC as of September 30, 2012. For 2012, MCC had total budgetary resources of \$2.17 billion, an increase of \$327 million, or 18 percent, from FY 2011. A total of \$898 million of budgetary resources were provided through FY 2012 Congressional appropriation and \$1.26 billion were carried forward from appropriations in prior years. For FY 2012 MCC received a \$10 million increase from \$95 million to \$105 million for its administrative expenses limitation.

# Analysis of MCC's Systems, Controls, and Legal Compliance

## Systems

The Department of the Interior's National Business Center (NBC) is MCC's financial management shared services provider for financial and payroll systems. MCC is responsible for overseeing NBC and ensuring that financial systems and internal controls are in place to fulfill legislated and regulatory financial management requirements.

## Controls

The annual Assurance Statement of the MCC CEO is presented on the next page, followed by the annual Assurance Statement of Management Controls over Financial Reporting submitted by MCC's service provider.

Internally, at least annually, MCC assesses the vulnerability of our programs and systems in alignment with the FMFIA and its implementing guidance, OMB Circular No. A-123, *Management's Responsibility for Internal Control*, as well as the associated guidelines issued by the Chief Financial Officers Council. OMB Circular No. A-123, Appendix A, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control over financial reporting. Appendix A provides for implementation to be modified to fit the circumstances, conditions, and structure of each entity. As such, through MCC's commitment to prudent financial management and internal controls, during FY 2012, MCC took the opportunity to reassess, improve, and will continue to enhance our financial, system, program, and performance information through a thorough and robust 3-year phased-in assessment of all MCC business processes, systems, and other supporting data and activities. The approach was modified to fit the circumstances, conditions, and structure of MCC and maintains a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specified document retention periods.

The information presented in this report reflects the necessary rigor, and meets the Circular's and Appendix A objectives, and is fundamentally complete and reliable as required by OMB.

The annual assurance statement required by FMFIA concludes that MCC can provide reasonable assurance that its overall internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations was operating effectively and can provide qualified assurance that its internal control over financial reporting was operating effectively.



## **FY 2012 Chief Executive Officer Annual Assurance Statement**

November 12, 2012

The Millennium Challenge Corporation's (MCC) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). MCC conducted an assessment of the effectiveness of internal control in achieving effective and efficient operations and compliance with applicable laws and regulations in accordance with Office of Management & Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*.

Based on the results of this assessment, MCC can provide:

- Reasonable assurance that its overall internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of June 30, 2012 was operating effectively.
- Qualified assurance that its internal control over financial reporting as of June 30, 2012 was operating effectively.

### **FMFIA Sections 2 and 4**

The vulnerability of MCC programs and systems was assessed in accordance with FMFIA and OMB guidance. Based on the annual assessment, MCC can provide qualified assurance that MCC's accounting systems and internal controls comply with provisions of OMB Circular No. A-123, *Management's Responsibility for Internal Control*, and for section 2 (Internal Accounting and Administrative Controls) of FMFIA. MCC can provide reasonable assurance that it is fully compliant with section 4 (Financial Systems) of FMFIA. MCC uses a Federal shared service provider, the National Business Center (NBC), for financial systems.

Taken as a whole, MCC can provide reasonable assurance that its overall internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of June 30, 2012 was operating effectively.

### **Internal Control over Financial Reporting**

The effectiveness of internal control over financial reporting was assessed, which includes safeguarding assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this assessment and the independent auditor's report, MCC can provide qualified assurance that its internal control over financial reporting as of June 30, 2012 was operating effectively.

MCC acknowledges that the auditor's report identified one material weakness related to ineffective and inefficient interrelationship among software, personnel, procedures, controls and data within MCC's financial management systems. The report also identified three significant deficiencies: (i) validation control over grant accrual estimates needs to be strengthened; (ii) monitoring control over funds provided to Millennium Challenge Accounts needs improvement; and (iii) information systems controls need improvement.

MCC will continue to enhance its internal accounting and administrative controls to address the noted deficiencies. Specific enhancements in fiscal year 2013 will include:

- Conducting a review of accounts and posting models to ensure that routine accounting transactions are included in the normal accounting process.
- Continuing to monitor and improve:
  - The effectiveness of its financial reporting process and the associated transaction reporting; and
  - The causes of underlying systems limitations or problems.
- Expanding the financial statement review process and implementing documented key review steps to ensure essential and effective reviews are performed.
- Improving the timeliness of reviews of remaining compact funds so that funds can be de-obligated within the timeline prescribed by policy and procedures after a compact expires.
- Improving reporting in the Statement of Budgetary Resources to add greater clarity around apportioned balances.
- Working with NBC to ensure that processes and corrections of errors are completed in a timely manner.
- Confirming that NBC is fully compliant with FMFIA requirements.

/ s /

**Daniel W. Yohannes**  
CHIEF EXECUTIVE OFFICER





United States Department of the Interior

INTERIOR BUSINESS CENTER

Washington, DC 20249

October 1, 2012

Ms. Chantale Y. Wong  
Millennium Challenge Corporation  
Vice President for Administration and Finance, CFO  
875 Fifteenth Street NW  
Washington, DC 20005

Ms. Wong:

The purpose of this letter is to provide assurance that the Oracle Federal financial application controls remained unchanged for the period July 1, 2012, through September 30, 2012.

You were previously notified that KPMG LLP examined the description of the Oracle financial application controls at the Department of the Interior (Department), National Business Center (NBC). The results of their review and analysis were provided in a Service Organization Control Report SSAE16 Attestation examination report (SSAE 16) covering the period July 1, 2011, through June 30, 2012. A copy of the report was provided to you under separate cover.

The SSAE 16 review was conducted for the purpose of expressing an opinion as to whether (1) NBC's description of the Oracle application controls presents fairly in all material respects the aspects of the NBC controls that may be relevant to a user organization's internal control, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description if those controls were complied with satisfactorily, and (3) such controls had been placed in operation as of June 30, 2011. KPMG also performed testing procedures designed to determine the effectiveness of the specified controls in meeting control objectives specified by the NBC.

This letter provides representations and assurances related to Oracle financial application controls at the NBC for the period July 1, 2012, through September 30, 2012. This time period was not covered by the SSAE 16 examination report previously provided. To the best of our knowledge and belief, there have been no subsequent events that would have a significant effect on user organizations that have not been disclosed to you. The controls that have been placed in operation as of June 30, 2012, did not change for the period of July 1, 2012, through September 30, 2012. The description of controls in the FY 2012 SSAE 16 examination report presents fairly the aspects of NBC controls that were in place as of September 30, 2012.

## Annual Assurance Statement from Service Provider

MCC's service provider, the Department of the Interior's National Business Center, provided the following Statement of Assurance.

Ms. Wong  
October 1, 2012  
Page 2 of 2

The NBC also conducted an assessment of the effectiveness of internal control over financial reporting for customers where the NBC processes your financial transactions, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular A-123 and the CFO Council's Implementation Guide dated July 31, 2005, as implemented by the Department. The assessment focused on the specific NBC financial business processes such as financial reporting, revenue management, funds management, and procurement in place as of June 30, 2012. As of that date, the NBC noted no material or significant deficiencies verified through A-123 Appendix A financial transaction testing. Thus, the NBC asserted internal controls over financial reporting were suitably designed and operating effectively. The procedures and management controls for processing financial transactions have not changed since June 30, 2012. As a result, the NBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2012, through September 30, 2012.

If you have any questions on this assurance statement, please contact Dean N. Martin, Interior Business Center Audit Liaison, on [REDACTED].

Sincerely,

/ s /

James W. Beall, CPA  
Chief Financial Officer, Interior Business  
Center

JWB:dnm

C: Mr. Dean N. Martin

If you are reading  
a paper copy of  
this report, the full  
text of the National  
Business Center Annual  
Assurance Statement  
of Internal Controls  
is available at:  
<http://www.mcc.gov>

## Summary of Material Weaknesses, Non-Compliance, and Corrective Actions

The Independent Auditor's Report identified one material weakness in internal control related to Ineffective and Inefficient Interrelationship Among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems. The auditors noted that MCC needs to continue to strengthen its financial reporting processes and controls through stronger interrelationships among software, personnel, procedures, controls and data.

The report also identified three significant internal control deficiencies. These deficiencies are:

- Validation Control over Grant Accrual Estimates Needs to be Strengthened.
- Monitoring Control over Funds Provided to Millennium Challenge Accounts (MCAs) Needs Improvement.
- Information Systems Controls Need Improvement.

MCC will continue to enhance its internal accounting and administrative controls to address the deficiencies contributing to its qualified assurance. Specific enhancements in FY 2013 will include:

- Conduct a review of accounts and posting models to ensure that routing accounting transactions are included in the normal accounting process.
- Continue to monitor and improve:
  - the effectiveness of its financial reporting process and the associated transaction reporting.
  - the causes of underlying systems limitations or problems.
- Expand the financial statement review process and implement documented key review steps to ensure essential and effective reviews are performed.
- Improve the timeliness of reviews of remaining compact funds so that funds can be de-obligated within expected timeframes prescribed by policy and procedures after a compact expires.
- Improve reporting in the Statement of Budgetary Resources to add greater clarity around apportioned balances.
- Work with the National Business Center to ensure that processes and corrections of errors are completed in a timely manner.
- Confirm that the National Business Center is fully compliant with FMFIA requirements.

## Legal Compliance

MCC management is responsible for ensuring compliance with other relevant financial management laws and regulations, including the:

- Prompt Payment Final Rule;
- Debt Collection Improvement Act (DCIA) of 1996;
- Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010;
- Federal Information Security Management Act (FISMA); and
- Privacy Act of 1974

### Prompt Payment Final Rule

The Prompt Payment final rule (5 Code of Federal Regulations Part 1315) requires Federal agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. With certain exceptions, payments to vendors are due within 30 days of the later of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are required to pay interest on the amount owed at a rate established by the Department of the Treasury. MCC measures the percentage of all payments made within the specified timeframes out of all payments subject to the Prompt Payment final rule. In FY 2012, MCC's prompt payment performance was 99.99 percent.

### Debt Collection Improvement Act of 1996

The DCIA requires all Federal agencies to refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to the Department of the Treasury's Financial Management Service for collection. During FY 2012, MCC did not refer any debt to the Department of Treasury.

### Improper Payments Information Act (as amended by Improper Payments Elimination and Recovery Act of 2010)

MCC's Improper Payments Information Act report is presented in the Other Accompanying Information section of this report.

### Federal Information Security Management Act (FISMA) of 2002

In FY 2012, MCC continued to improve and enhance implemented security controls in compliance with FISMA and increase the protection of agency systems and information. This year, MCC developed, published and implemented IT governance policies and reorganized IT projects to delineate IT responsibilities. MCC is on target to complete the Comprehensive Corrective Action Plan (CCAP) during FY 2013.

### Privacy Act of 1974

MCC continues to address weaknesses in MCC's privacy program identified by the Office of Inspector General. MCC began a detailed third-party assessment in October 2012, to evaluate the Security Program and Privacy Program and validate MCC's policy posture and adherence to policies. MCC anticipates completion of this assessment in FY 2013.

## Other Management Information, Initiatives, and Issues

For FY 2013, MCC has identified seven areas that merit special attention as part of its commitment to achieving its 5-year goals. These are:

1. **Differentiating the MCC model** — focusing on those elements of the MCC business model that offer the opportunity to significantly improve the way in which foreign development assistance is delivered.
2. **Communicating information and results** — reinforcing MCC's commitment to not only producing results but to ensure that MCC is holding itself accountable for results and that its results are widely available to anyone interested in development assistance.
3. **Managing, sharing and applying knowledge** — ensuring that MCC is able to learn from its own experience and that of other actors in the global development community, adapt business practices based on lessons learned, and remain at the cutting edge of applying best practices.
4. **Promoting transparency of information** — committing MCC to disseminating information about its business practices, investment decisions, implementation progress, and learning about what works and what does not work in broad and readily accessible venues and formats.
5. **Implementing strategic staffing** — enabling MCC to optimize its limited staff resources and to respond flexibly and effectively to changing portfolios and technical/sector demands.
6. **Ensuring project sustainability** — maximizing value for money from MCC funding by focusing on enhancing the long-term viability of projects, processes and institutions promoted in MCC compacts, including through strategic partnerships.
7. **Addressing organizational challenges** — creating flexible and efficient administrative processes to support a highly motivated, creatively incentivized, and institutionally supported agency in a constrained budget environment.

Each department has identified very specific goals, targets and measures of success focused on addressing these priorities while maintaining MCC's commitment to its strategic objectives. During the year, MCC will monitor progress through a number of processes, including quarterly operational reviews and senior management discussions as well as an interim senior management retreat focused on the objectives of each fiscal year.

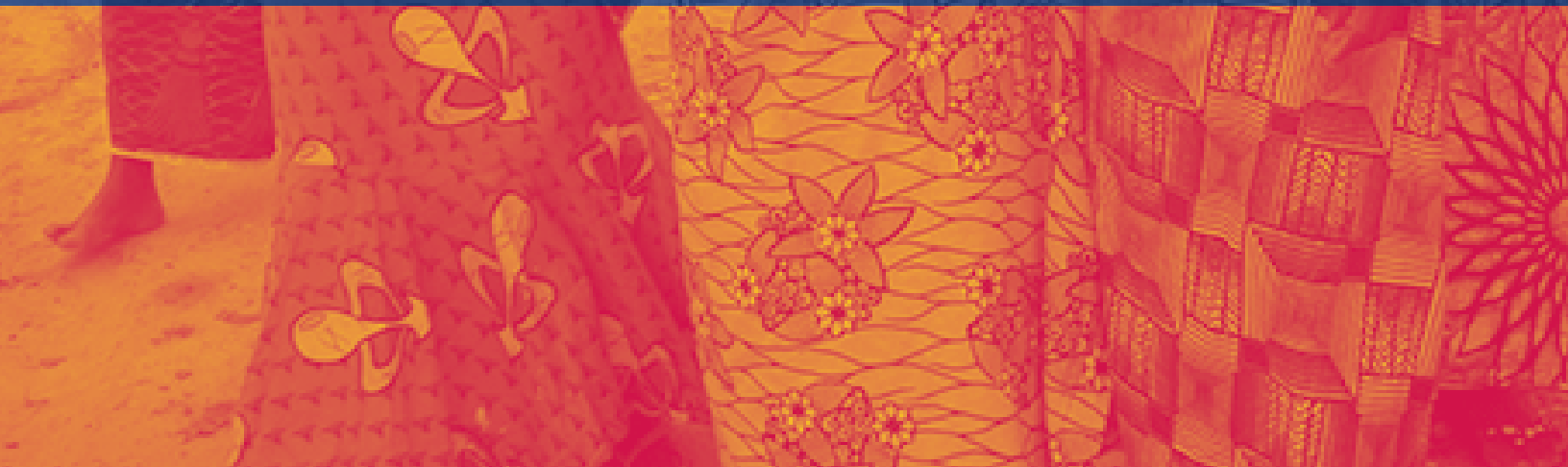


## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



# Financial Section





November 12, 2012

The Millennium Challenge Corporation is firmly committed to delivering the highest standards of financial accountability, transparency and reporting in support of the Corporation's focused mandate to reduce poverty through economic growth. Our Agency Financial Report is an important component in delivering against those standards. In the Report, MCC discloses and reports on our key performance and financial outcomes for the fiscal year. Supporting this report is the tremendous work performed every day by MCC personnel in countries around the world and in our Washington, DC headquarters locations.

In 2012, MCC completed its eighth year of operations. As our CEO states in his opening letter, the contribution MCC is making to reducing poverty is measurable and increasing. Just as our operations grow and the tools to support them are improved and expanded, MCC continues to grow and improve our financial management capabilities to support those expanding operations.

Accountability and transparency are at the very core of MCC—they are what we ask of our country partners and attributes that we demand of ourselves. To achieve those goals, MCC updated its financial accounting system in the past year and revised critical processes for tracking and recording the grant activity we make through our member compacts. I am extremely proud of the financial improvements we have made and of the support delivered by our financial management professionals as we continue to ensure financial accountability and transparency in the corporation's financial reporting.

I am also pleased and proud to report that MCC, for the second year in a row, received an unqualified or "clean" opinion on its financial statements. Clearly we have continued to build on our prior year results with improvements and enhancements to our financial management processes and activities. MCC maintains a robust system of controls overseen by senior leadership.

While our financial statements are in good condition, MCC's financial processes and practices still have room for improvement. Our independent auditors identified one material weakness, and three significant deficiencies, in MCC's internal controls. The material weakness is related to the effectiveness of internal controls over financial reporting. We will take aggressive action in FY 2013 to address the underlying causes of this weakness. We will address the significant deficiencies, related to grant estimates, monitoring funds and information systems controls, just as aggressively.

I appreciate the continued support of the entire Corporation, with special thanks to the Office of Inspector General, as we continue to work together in our quest for excellence in financial management.

/ s /

**Chantale Yokmin Wong**

VICE PRESIDENT, DEPARTMENT OF ADMINISTRATION AND FINANCE  
CHIEF FINANCIAL OFFICER



**Message from  
the Millennium  
Challenge  
Corporation's  
Chief Financial  
Officer**



## Financial Section

The Principal Financial Statements have been prepared to report the financial position and the results of operations of the Millennium Challenge Corporation (MCC). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements* (revised 8/3/2012). The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for FY 2011 have been included. MCC is presenting the following financial statements and additional information:

- Balance Sheets
- Statements of Net Costs
- Statements of Changes in Net Position
- Statements of Budgetary Resources
- Notes to Financial Statements
- Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2012 and 2011

*Note that totals may vary slightly due to rounding.*

## Balance Sheets

As of September 30, 2012 and 2011 (in thousands)		
Assets	FY 2012	FY 2011
Intra-Governmental		
Fund Balance with Treasury (Note 2)	\$ 5,321,289	\$ 5,875,161
Advances — Federal (Note 5)	1,708	5,861
<b>Total Intra-Governmental</b>	<b>\$ 5,322,997</b>	<b>\$ 5,881,022</b>
Accounts Receivable (Note 3)	7,489	65
General Property, Plant, and Equipment (Note 4)	3,368	4,613
Advances — Public (Note 5)	154,253	192,187
<b>Total Assets</b>	<b>\$ 5,488,107</b>	<b>\$ 6,077,887</b>
Liabilities		
Intra-Governmental		
Accounts Payable — Federal (Note 1F)	\$ 215	\$ 10,290
Contributions and Payroll Taxes Payable	716	528
<b>Total Intra-Governmental</b>	<b>\$ 931</b>	<b>\$ 10,818</b>
Accounts Payable — Non Federal (Note 1F)	16,757	14,979
Federal Employee and Veteran Benefits Payable	14	13
Accrual — Grant Liabilities (Note 11)	106,410	275,387
Accrued Funded Liabilities	6,293	8,531
<b>Total Liabilities</b>	<b>\$ 130,405</b>	<b>\$ 309,728</b>
Net Position		
Unexpended Appropriations — Other Funds	\$ 5,346,633	\$ 5,763,269
Cumulative Results of Operations — Other Funds	11,069	4,890
<b>Total Net Position</b>	<b>\$ 5,357,702</b>	<b>\$ 5,768,159</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 5,488,107</b>	<b>\$ 6,077,887</b>

The accompanying notes are an integral part of these statements.

## Statements of Net Cost

For the Years Ended September 30, 2012 and 2011 (in thousands)		
Program Costs (Note 7)	FY 2012	FY 2011
Compact Program Costs	\$ 1,129,720	\$ 1,449,285
609 (g) Program Costs	21,734	28,825
614 (g) Program Costs	220	51
Threshold Program Costs	16,371	49,002
Due Diligence Program Costs	41,478	37,629
Audit Costs	5,165	4,087
Administrative Costs	96,306	91,811
<b>Net Costs of Operations</b>	<b>\$ 1,310,994</b>	<b>\$ 1,660,690</b>

The accompanying notes are an integral part of these statements.



## Statements of Changes in Net Position

For the Years Ended September 30, 2012 and 2011 (in thousands)		
Cumulative Results of Operations	FY 2012	FY 2011
Beginning Balances	\$ 4,890	\$ 6,119
<b>Budgetary Financing Sources</b>		
Appropriations Used	1,314,837	1,657,002
<b>Other Financing Sources</b>		
Donations and Forfeitures of Property <i>(Note 1P)</i>	275	236
Imputed Financing	2,061	2,223
Total Financing Sources	1,317,173	1,659,461
Net Cost of Operations	(1,310,994)	(1,660,690)
Net Change	6,179	(1,229)
<b>Cumulative Results of Operations</b>	<b>\$ 11,069</b>	<b>\$ 4,890</b>
<b>Unexpended Appropriations</b>		
Beginning Balance	\$ 5,763,269	\$ 6,522,071
<b>Budgetary Financing Sources</b>		
Appropriations Received	\$ 898,200	\$ 900,000
Other adjustments	—	(1,800)
<b>Appropriations Received, net of adjustments</b>	<b>\$ 898,200</b>	<b>\$ 898,200</b>
Appropriations Used	\$ (1,314,837)	\$ (1,657,002)
Total Budgetary Financing Sources	(416,637)	(758,802)
Total Unexpended Appropriations	5,346,633	5,763,269
<b>Net Position</b>	<b>\$ 5,357,702</b>	<b>\$ 5,768,159</b>

The accompanying notes are an integral part of these statements.

## Statements of Budgetary Resources

For the Years Ended September 30, 2012 and 2011 (in thousands)		
Budgetary Resources	FY 2012	FY 2011
Unobligated balance brought forward, October 1	\$ 1,264,708	\$ 944,204
Recoveries of prior year unpaid obligations	11,068	4,152
Appropriations (Note 1C)	898,200	898,200
<b>Total Budgetary Resources</b>	<b>\$ 2,173,976</b>	<b>\$ 1,846,556</b>
Status of Budgetary Resources		
Obligations incurred	\$ 413,288	\$ 581,848
Unobligated balance, end of year:		
Apportioned (Note 9)		
• Available	1,042,659	671,745
• Unavailable	718,029	592,963
Total unobligated balances, end of year	1,760,688	1,264,708
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,173,976</b>	<b>\$ 1,846,556</b>
Change in Obligated Balance		
Unpaid obligations, brought forward, October 1	\$ 4,609,454	\$ 5,609,508
Obligations Incurred	413,289	581,848
Outlays (gross) (-)	(1,451,890)	(1,577,750)
Recoveries of prior year unpaid obligations (-)	(11,068)	(4,152)
<b>Obligated Balance, end of year</b>	<b>\$ 3,559,785</b>	<b>\$ 4,609,454</b>
Budget Authority and Outlays (Net)		
Budget authority, gross	898,200	898,200
Outlays, gross	\$ 1,451,890	\$ 1,577,750

The accompanying notes are an integral part of these statements.

# Notes to Financial Statements (As of September 30, 2012)

## Note 1—Summary of Significant Accounting Policies

### A. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC as required by OMB Circular No. A-136, *Financial Reporting Requirements* (revised 8/3/2012), for form and content and in compliance with the Government Corporation Control Act (31 U.S.C. §9106). These financial statements have been prepared from MCC's books and records and are presented in accordance with the applicable requirements of OMB, and the Secretary of the Treasury.

MCC's accounting policies conform to and are consistent with generally accepted accounting principles (GAAP) for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard setting authority for the Federal government. MCC's principal financial statements are:

- Balance Sheets;
- Statements of Net Costs;
- Statements of Changes in Net Position; and
- Statements of Budgetary Resources

Financial statement footnotes are also included and considered an integral part of the financial statements.

The presentation used for the Statement of Budgetary Resources (SBR) prior to FY 2012 has been revised to reflect a new format required pursuant to the OMB Circular No. A-136, *Financial Reporting Requirements*, updated to better align with the Department of the Treasury Standard Form (SF) 133. Circular No. A-136 requires agencies to present both the FY 2012 and 2011 SBR in the same format. Accordingly, even though beginning balances for the FY 2011 SBR were not changed, certain reclassifications were made to the previously issued FY 2011 SBR to conform to the new format.

### B. Reporting Entity

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003, as amended, (Public Law 108-199). MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments. Assistance is intended to

provide economic growth and alleviate extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

### **C. Budgets and Budgetary Accounting**

MCC's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. OMB apportions MCC program and administrative funds on an annual basis pursuant to statutory limitations in the annual appropriations bill. OMB segregates the apportionment of funds for administrative and audit oversight, compact programs, due diligence programs, 609(g) programs, 614(g) programs and threshold programs. MCC does not have any earmarked funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds are not returned to the Treasury; however, unobligated balances as of September 30 for these three categories of funds are transferred to the program fund category for future obligation until expended.

### **D. Basis of Accounting**

Financial transactions are recorded on accrual and budgetary bases in accordance with pertinent federal accounting and financial reporting requirements. Under the accrual method of accounting, financing sources are recognized when used and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates MCC's compliance with legal constraints and controls over the use of Federal funds. The accompanying Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position are prepared on the accrual basis. The Statements of Budgetary Resources are prepared in accordance with budgetary accounting rules.

### **E. Fund Balance with Treasury**

MCC does not maintain cash in commercial bank accounts. Rather, MCC's funds are maintained by the U.S. Treasury. The U.S. Treasury processes all cash receipts and disbursements for MCC. The fund balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

### **F. Accounts Payable**

MCC records as liabilities all amounts due to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to Federal and non-Federal entities for goods and services received by MCC, but not paid at the end of the accounting period. Accounts Payable—Federal represents payable transactions

with other Federal government agencies (USAID, Department of the Interior, etc.), Accounts Payable—Non Federal represents transactions with non-federal entities.

## **G. Actuarial FECA Liability**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or disease, and beneficiaries of employees.

Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's actuarial liability for workers' compensation includes any costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

## **H. Accrued Annual Leave**

The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused sick leave.

## **I. Net Position**

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception.

## **J. Financing Sources**

Per note 1C, MCC funds its program and operating expenses through no-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations.

## **K. Retirement Benefits**

MCC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public

Law 99-335. Pursuant to this law, most U.S. Government employees hired after December 31, 1983, are covered by FERS and Social Security. Federal employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS. For employees covered by CSRS, MCC contributes seven percent of their gross pay toward their retirement benefits. Matching contribution of seven percent is required and automatically deducted from employees' gross pay. For those employees covered by FERS, MCC contributes 1 percent of their gross pay to the Federal Thrift Savings Plan (TSP). MCC also matches employee contributions up to an additional four percent of pay, for a maximum MCC contribution of five percent of pay. Employees under CSRS may participate in the TSP, but will not receive either MCC's automatic or matching contributions.

Federal employee benefits costs paid by the Office of Personnel Management (OPM) and imputed by MCC are reported on the Statement of Net Cost.

## **L. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of financing sources and expenses during the reporting period. Actual results could differ from such estimates.

Federal Accounting Standards Advisory Board Technical Release 12 (TR12), *Accrual Estimates for Grant Programs*, provides procedures for estimating accruals for grant programs. MCC has followed these procedures in developing its grant accrual methodology to calculate and record the accrual for the MCC Compact Grant Programs.

## **M. Contingencies**

MCC can be a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against MCC. In the opinion of MCC's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact MCC's financial statements.

## **N. Judgment Fund**

Certain legal matters to which MCC can be named as a party may be administered and, in some instances, litigated and paid by other Federal agencies. In general, amounts paid in excess of \$2.5 thousand for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by the Department of the Treasury, called the Judgment Fund.

Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

## **O. Custodial Liabilities**

Under current policy and procedures, MCC disburses funds for Compact and pre-Compact projects and activities upon the presentation of a valid invoice. However, under certain conditions, MCC will fund countries by advancing funds on an as-needed basis to cover basic needs. Such funds provided to the countries are required to be deposited in interest-bearing accounts, if legally feasible, until disbursed. The interest earned on these accounts is remitted to MCC by the MCA and is then returned to the Treasury's general fund.

## **P. Donated Services**

MCC may on occasion utilize donated services from other Federal agencies, individuals and private firms in the course of business operations. The approximate fair market value of donated services for FY 2012 was \$275 thousand and FY 2011 was \$236 thousand.

## **Q. Transfers with Other Federal Agencies**

MCC is a party to allocation transfers with another Federal agency as a transferring entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays that are incurred by the child entity are charged to this allocation account, as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and apportionments are derived.

MCC allocates funds, as the parent, to USAID. In FY 2012 and FY 2011, USAID transferred back to MCC budgetary authority of \$10,499 thousand and \$3,904 thousand, respectively. USAID receives these allocations as transfers-in and reports quarterly to MCC as the child. MCC also transfers an administrative fee to USAID for the purposes of administering the threshold programs. There were no transfers to USAID in FY 2012 and FY 2011.



## R. Fund Categories

MCC allocates costs among these major program categories:

- Compact funds comprise large, five-year grants for countries that pass MCC's eligibility criteria.
- 609 (g) funds cover contracts or grants that facilitate the development of a compact between MCC and a partner country.
- 614 (g) funds comprise research contracts for the purpose of improving data related to eligibility criteria.
- Threshold programs are smaller grants awarded to countries that come close to meeting the eligibility criteria for compacts.
- Due Diligence funds support the cost of assessing compact proposals and providing compact implementation oversight.
- Audit funds cover audits of MCC operations and programs; the USAID Office of Inspector General (OIG) performs the audit work.
- Administrative funds cover MCC operating expenses.

## S. Advances

MCC has two major types of Advances associated with its compact agreements:

1. **Advances to Contractors made on behalf of the MCA** — MCC receives a periodic reporting of advances from MCAs to their contractors. MCC records corresponding entries to adjust advance and expense balances.
2. **Advances to MCAs** — MCC receives a periodic reporting of actual operating advances via the compact quarterly reporting process. Based on these reports, MCC adjusts advance and expense balances.

## Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. MCC is appropriated “general” funds only and maintains these balances in the Fund Balance with Treasury. The general fund line items on the Balance Sheet for FY 2012 and FY 2011 consisted of the amounts presented in Exhibit 1. The balance shown agrees with the balance shown in the Government-Wide Accounting System. The status of the general fund balances is summarized by obligated, unobligated and Non-Budgetary fund balances in Exhibit 2.

**Exhibit 1: Fund Balance with Treasury as of September 30 (in thousands)**

Fund Balances	September 30, 2012	September 30, 2011
General Funds	\$ 5,321,289	\$ 5,875,161
<b>Total</b>	<b>\$ 5,321,289</b>	<b>\$ 5,875,161</b>

**Exhibit 2: Status of Fund Balance with Treasury as of September 30 (in thousands)**

Status of Fund Balance with Treasury	September 30, 2012	September 30, 2011
Unobligated Balance		
Apportioned		
• Available	\$ 1,042,659	\$ 671,745
• Unavailable	718,029	592,963
<b>Subtotal</b>	<b>\$ 1,760,688</b>	<b>\$ 1,264,708</b>
Obligated Balance	3,559,785	4,609,454
Non-Budgetary FBWT	157	999
Reconciling Items	659	
<b>Total</b>	<b>\$ 5,321,289</b>	<b>\$ 5,875,161</b>

**Note 3—Accounts Receivable, Net**

Accounts Receivable reflects overpayments of payroll, travel and other MCC current and former employee expenses. It also reflects substantiated disallowed MCA expenditures. Total receivables at the end of FY 2012 and FY 2011 were \$7,489 thousand and \$65 thousand, respectively. Of the \$7,489 thousand FY 2012 receivables, \$6,900 thousand is the result of an amount due from Ghana for the recapture of the Agriculture Credit Program. Receivables that exist with foreign countries are considered sovereign debt. MCC uses individual account analyses to determine when accounts are uncollectible and therefore does not record an allowance for doubtful accounts based on the total account balance.

**Note 4—General Property, Plant and Equipment, Net**

MCC's property, plant and equipment (PP&E) costs are the associated leasehold improvements made to its leased office space as well as general equipment costs. The book value of all general PP&E for Fiscal Year 2012 and Fiscal Year 2011 was \$3,368 thousand and \$4,613 thousand, respectively. The status of the general fund balances for General PP&E is summarized for FY 2012 and FY 2011 in Exhibit 3 and Exhibit 4, respectively, below.

Exhibit 3: Status of General PP&E as of September 30, 2012 (in thousands)					
	Depreciation Method	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
<b>General PP&amp;E</b>					
Leasehold Improvements	Straight-line	8-10 years	\$ 10,924	\$ 7,619	\$ 3,305
Other General PP&E	Straight-line	5 years	139	76	63
<b>Total</b>			<b>\$ 11,063</b>	<b>\$ 7,695</b>	<b>\$ 3,368</b>

Exhibit 4: Status of General PP&E as of September 30, 2011 (in thousands)					
	Depreciation Method	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
<b>General PP&amp;E</b>					
Leasehold Improvements	Straight-line	8-10 years	\$ 10,924	\$ 6,402	\$ 4,522
Other General PP&E	Straight-line	5 years	139	48	91
<b>Total</b>			<b>\$ 11,063</b>	<b>\$ 6,450</b>	<b>\$ 4,613</b>

## Note 5—Advances

Advances reflect amounts provided to compact countries and other Federal agencies in accordance with formal compacts or inter-agency agreements. As of September 30, 2012, MCC reported intragovernmental advances totaling \$1,708 thousand and nongovernmental advances totaling \$154,253 thousand. As of September 30, 2011, the amounts reported were \$5,861 thousand and \$192,187 thousand, respectively. The \$37,934 thousand net decrease in nongovernmental advances is comprised primarily of the net effect of four compact closures, the addition of three new compacts and fluctuations in Advance balances in ongoing compacts.

## Note 6—Leases

MCC leases office space in two adjacent locations in Washington, D.C. These operating leases are on ten-year (Bowen Building) and eight-year (City Center Building) lease terms that terminate on May 25 and May 26, 2015, respectively. The Bowen building lease increases approximately one percent each year of the lease term. The City Center building lease increases at a fixed level every three years until the termination of the lease.

MCC also has short term leases for one corporate vehicle (through September 28, 2015) and for 18 copier machines (through September 29, 2017) utilized in both buildings. The future lease payments due are depicted in Exhibit 5 below.

**Exhibit 5: Operating Leases (in thousands)**

Future Lease Payments Due—Buildings	Bowen	City Center	Total
FY 2013	\$ 5,726	\$ 1,942	\$ 7,668
FY 2014	5,783	1,995	7,778
FY 2015	5,841	1,995	7,836
<b>Total Future Lease Payments—Buildings</b>	<b>\$ 17,350</b>	<b>\$ 5,932</b>	<b>\$ 23,282</b>

Future Lease Payments Due—Equipment	MCC Vehicle	MCC Copiers	Total
FY 2013	\$ 11	\$ 45	\$ 56
FY 2014	11	45	56
FY 2015	11	45	56
FY 2016		45	45
FY 2017		45	45
<b>Total Future Lease Payments—Equipment</b>	<b>\$ 33</b>	<b>\$ 225</b>	<b>\$ 258</b>

**Note 7—Intragovernmental Costs**

The Statement of Net Cost reports the MCC's gross cost less earned revenues to arrive at net cost of operations. MCC has no earned revenue. Costs have been illustrated by MCC funded programs. Threshold program costs have dropped because MCC has signed no new threshold agreements since FY 2010 and there was no new threshold funding in FY 2011.

Exhibit 6 shows the value of exchange transactions between MCC and other Federal entities, as well as non-Federal entities. Intragovernmental costs relate to transactions between the MCC and other Federal entities. Nongovernmental costs relate to transactions between the MCC and non-Federal entities. MCC does not have any exchange revenues. The Intragovernmental and Nongovernmental Costs for FY 2012 and FY 2011 are depicted in Exhibit 6.

**Exhibit 6: Intra-governmental Costs (in thousands)**

FY 2012 Total	Intra-Governmental	Nongovernmental	Total—Program
Compact	\$ 6,531	\$ 1,123,189	\$ 1,129,720
609(g) Programs	6,554	15,180	21,734
614(g) Programs	—	220	220
Threshold Programs	1,491	14,880	16,371
Due Diligence	5,210	36,268	41,478
Audit	3,313	1,852	5,165
Administrative	18,980	77,326	96,306
<b>Total—Program</b>	<b>\$ 42,079</b>	<b>\$ 1,268,915</b>	<b>\$ 1,310,994</b>

<b>Exhibit 6: Intra-governmental Costs (in thousands)</b>			
<b>FY 2011 Total</b>	<b>Intra-Governmental</b>	<b>Nongovernmental</b>	<b>Total—Program</b>
Compact	\$ 4,518	\$ 1,444,767	\$ 1,449,285
609(g) Programs	3,531	25,294	28,825
614(g) Programs	—	51	51
Threshold Programs	12,681	36,321	49,002
Due Diligence	5,153	32,476	37,629
Audit	3,871	216	4,087
Administrative	25,135	66,676	91,811
<b>Total—Program</b>	<b>\$ 54,889</b>	<b>\$ 1,605,801</b>	<b>\$ 1,660,690</b>

## Note 8—Undelivered Orders at the End of the Period

Exhibit 7 presents Undelivered Orders, paid and unpaid, as of September 30, 2012 and 2011.

<b>Exhibit 7: Undelivered Orders (in thousands)</b>		
	<b>September 2012</b>	<b>September 2011</b>
Administrative	\$ 44,953	\$ 35,654
Audit	711	840
609(g)	24,358	34,748
614(g)	4	224
Due Diligence	81,432	70,955
Compacts	3,399,289	4,297,756
Threshold	31,423	58,595
<b>Total</b>	<b>\$ 3,582,170</b>	<b>\$ 4,498,772</b>

## Note 9—Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

MCC ensures that the information reported in its books is reflected within the Budget of the U.S. Government. Since MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources column for FY 2011 and the FY 2011 actual data reported in the FY 2013 budget submission. FY 2012 actual data will be published within the 2014 Budget of the United States to be published in February 2013. Exhibit 8 reconciles the Budgetary Authority for the Combined Statement of Budgetary Resources and the Budget of the U.S. Government based on the actuals published for FY 2011. The MCC Budget Appendix can be found on the OMB website ([http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/33\\_1.pdf](http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/33_1.pdf)). Go to International Assistance Programs. The budget for FY 2014 will be published in February, 2013. When published, it will be available on <http://www.whitehouse.gov/omb>.

**Exhibit 8: Reconciliation of Budgetary Authority for the Combined Statement of Budgetary Resources and the Budget of the U.S. Government (in thousands)**

FY 2011	Budgetary Authority
Combined Statement of Budgetary Resources	\$ 898,200
Deductions for Offsetting Receipts	(1,000)
Budget of the U.S. Government	897,200

The \$1,000 thousand difference is due to a USAID adjustment that was not made prior to the cutoff for submitting changes to the Budget of the U.S. Government. The adjustment related to an incorrect recording of \$1,000 thousand as offsetting receipts in the Budget.

MCC has disaggregated its Apportionment line on the Statement of Budgetary Resources. Instead of one amount, the Apportionment line is shown with two supporting lines—available and not available. MCC believes presentation of the apportionment as one line does not reflect the actual availability of funds. MCC’s implementing legislation requires that Congressional Notification be made before apportioned funds can be made available for Compacts. MCC Apportionments are reported on two lines: available and unavailable. Unavailable balances represent amounts for which Congressional notification has not been made. The FY 2011 amounts have been adjusted to reflect the FY 2012 format changes to the Statement of Budgetary Resources.

**Note 10—Reconciliation of Net Cost of Operations to Budget**

Exhibit 9 and Exhibit 10 reconcile the resources available to MCC to finance operations with the net cost of operating MCC’s programs. Some operating costs, such as depreciation, do not require direct financing sources. The exhibits illustrate the reconciliation of Net Cost of Operations to Budget for FY 2012 and FY 2011, respectively.

**Exhibit 9: Reconciliation of Net Cost of Operations to Budget  
as of September 30, 2012 (in thousands)**

Resources Used to Finance Activities		FY 2012 Reported Program Costs		
Budgetary Resources Obligated				
Obligations Incurred	\$	413,289	Gross Costs	\$ 1,310,994
Recoveries of prior year unpaid obligations		(11,068)		
Other financing sources		2,336		
Total resources used to finance activities	\$	404,557		
Total resources used to finance items not part of the net cost of operations	\$	909,179	Less: Earned Revenue	—
Total components of net cost of operations that will not require or generate resources		1,244		
Advance liquidation adjustment		(3,986)		
	Net Cost of Operations	\$ 1,310,994	Net Cost of Operations	\$ 1,310,994

**Exhibit 10: Reconciliation of Net Cost of Operations to Budget  
as of September 30, 2011 (in thousands)**

Resources Used to Finance Activities		FY 2011 Reported Program Costs		
Budgetary Resources Obligated				
Obligations Incurred	\$	581,848		
Recoveries of prior year unpaid obligations		(4,152)	Gross Costs	
Other financing sources		2,460		
Total resources used to finance activities	\$	580,156	Less: Earned Revenue	
Total resources used to finance items not part of the net cost of operations	\$	1,079,290		
Total components of net cost of operations that will not require or generate resources		1,244		
Net Cost of Operations	\$	1,660,690	Net Cost of Operations	\$ 1,660,690



**Note 11—Accrual - Grant Liabilities**

The \$168,977 thousand decrease in grant liabilities was the result of:

- Decreases related to completed Compacts (\$135,862 thousand). There were six compact that had accruals in FY 2011 that did not have accruals in FY 2012.
- Decreases related to change in estimating methodology (\$55,264 thousand).
- Increases related to Compact start-ups, \$22,149 thousand. There were eight compacts that had accruals in FY 2012 that did not have accruals in FY 2011.

In FY 2012 MCC modified its grant liability estimation methodology. MCC approves MCA spending authority quarterly based on MCC approved financial plans developed by each MCA. MCC discounts unused spending authority by a rolling average of actual disbursements to calculate the estimated liability. The difference in the grant liability between FY 2012 and FY 2011 was due to this change in the estimation methodology.

## **Independent Auditor's Report**



## OFFICE OF INSPECTOR GENERAL for the Millennium Challenge Corporation

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### AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2012 AND 2011

AUDIT REPORT NO. M-000-13-001-C  
November 15, 2012

WASHINGTON, DC

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



*Office of Audit  
for the Millennium Challenge Corporation*

November 15, 2012

Mr. Daniel Yohannes  
Chief Executive Officer  
Millennium Challenge Corporation  
875 15<sup>th</sup> Street, NW  
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements,  
Internal Controls, and Compliance for the Period Ending September 30,  
2012 and 2011 (Report No. M-000-13-001-C)

Dear Mr. Yohannes:

Enclosed is CliftonLarsonAllen LLP's, final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP, to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2012. The contract required that the audit be performed in accordance with United States Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 07-04 as amended, Audit Requirements for Federal Financial Statements, and the GAO/PCIE Financial Audit Manual.

The Independent Auditors expressed an unqualified opinion on MCC's FY 2012 Financial Statements. The report stated that the financial statements referred to above present fairly, in all material respects, the net position of MCC as of September 30, 2012, and its net cost, changes in net position and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. MCC's financial statements as of September 30, 2011 were audited by other auditors.

U.S. Agency for International Development  
Office of Inspector General  
1300 Pennsylvania Ave, NW  
Washington, DC 20523  
[www.usaid.gov/oig](http://www.usaid.gov/oig)

In its audit of MCC's fiscal year 2012 financial statements the auditor's identified one issue that was considered a material weakness and three other issues that were considered significant deficiencies. These matters are listed below and are detailed in the auditor's report.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

#### Material Weakness

- Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Significant Deficiencies

- Validation Control over Grant Accrual Estimates Needs to be Strengthened
- Monitoring Control over Funds Provided to MCAs Needs Improvement
- Information Systems Controls Need Improvement

The auditors did not note any instance of material non-compliance with laws and regulations.

In carrying out its oversight responsibilities, the OIG reviewed CliftonLarsonAllen LLP, Internal Audit Report and audit documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with other laws and regulations. CliftonLarsonAllen LLP is responsible for the attached auditor's report, dated November 15, 2012, and the conclusions expressed in the report. However, our review disclosed no instances where CliftonLarsonAllen LLP, did not comply, in all material respects, with applicable standards.

To address the material weakness and significance deficiencies in internal controls reported by CliftonLarsonAllen LLP, we are listing below the findings with 22 recommendations to MCC's management:

#### Material Weakness

**Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems**



**Recommendations:** With regards to the core financial system, we recommend that MCC:

1. Perform a comprehensive review and determine whether the service provider's financial management system is substantially in compliance with the federal financial management system's requirements and meeting MCC financial management and reporting needs. As part of this review, management should determine if a separate grants management system that focuses on program administrations that interfaces with the core financial system is needed.
2. Investigate and correct the causes for the underlying system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions.
3. Review USSGL transaction posting models so that all routine accounting transactions are included in the normal accounting processes. Manual adjusting journal entries should be used for limited transactions like unusual one-time entries. All valid recurring entries that are currently entered manually should have standard transaction codes set-up to prevent posting errors.

With regards to the workbook, we recommend that MCC:

4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.
5. Limit access and ability to make changes to the workbook to a few personnel. Assign a staff and a designate as primarily responsible and accountable for the workbook.
6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.
7. Investigate the use of alternative approaches such as the use of a financial statement generation software tool or other financial management system that can interface with the trial balance or the core financial system and automatically generate the financial statements.

With regards to supervisory reviews, we recommend that MCC:

8. Develop a comprehensive financial statements review process that details specific steps performed, results of such reviews, steps taken to resolve discrepancies noted, and related management resolution.
9. Implement an effective management review using the comprehensive review process developed in recommendation 8 to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, current year beginning balances agreed to prior year audited balances, and reconciling items are recorded timely. Such management reviews should be performed quarterly and at year-end timely with evidence of management sign-off signifying levels of reviews performed.

With regards to financial staff resource management, we recommend that MCC:

10. Cross-train MCC financial staff on the financial statements preparation process to ensure that there is more than one person knowledgeable and can prepare the financial statements.

### **Significant Deficiencies**

#### **Validation Control over Grant Accrual Estimates Needs to be Strengthened**

**Recommendations:** We recommend that MCC:

11. Perform a grant accrual look back analysis on a quarterly basis. The look back analysis and the results should provide MCC sufficient information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. The accrued liability amount is subject to the risks that actual subsequent disbursement amount may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.
12. Update the Expense Accruals Policy and Procedures to reflect the change in the methodology.
13. Develop audit procedures for the MCA audit to compare spending authority request amount against actual expenses, and investigate and document significant variances. The results should be provided to MCC, which can use this information collected from the MCA audits as data store to validate or enhance the current methodology.
14. Continue to enhance the accrual methodology.

#### **Monitoring Control over Funds Provided to MCAs Needs Improvement**

##### **A. Audit Reports**

**Recommendations:**

15. MCC management should have control over how these audits should be conducted to meet its financial and programmatic accountability, needs and requirements. MCC management should collaborate with USAID OIG to clarify and document management roles, responsibilities, and performance standards and the USAID OIG oversight role with regards to MCA audits.
16. MCC needs to evaluate its resources, capability, and ability to monitor and review the quality and performance of the audits and the audit firms to track and conduct follow-up of corrective action plans with the MCAs in a timely manner.



## **B. Final Quarterly Financial Report (QFR)**

### **Recommendations:**

We recommend that MCC:

17. Utilize the QFRs and the monthly reconciliations as monitoring tools over the MCA's financial reporting process and the MCC's validation of its financial records. To be effective as monitoring tools, the re-designing of the QFR form and the development and documentation of the monthly reconciliation process should ensure that relevant data and information are reported by the MCAs and reported timely.
18. Ensure that MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.
19. Require the MCA audit firms to test the design and effectiveness of the MCA's internal control over the QFRs and the monthly reconciliation, and to test for the accuracy of the balances and reconciliation.
20. Develop and implement reconciliation procedures to document the complete reconciliation between the MCA's final QFR and MCC's records.

## **C. Expired Compacts Not Financially Closed-Out**

### **Recommendations:**

We recommend that MCC:

21. Timely assess the MCA's need for the remaining compact funds so that the funds could be de-obligated within the timeline in the policy and procedures after the compact expires.
22. Develop and implement a financial management policy that separates the programmatic close-out process from the financial close-out process. This policy should clearly layout the expected timing for de-obligation.

## **Information Systems Controls Need Improvement**

### **Recommendation:**

We are not repeating the recommendations which are included in the USAID OIG Report titled "Audit of Millennium Challenge Corporation's Fiscal Year 2012 Compliance with Federal Information Security Management Act of 2002," Audit Report M-000-13-001-P, dated November 6, 2012.

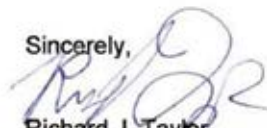
In finalizing the report, CliftonLarsonAllen LLP, evaluated MCC's response to the report and acknowledged that management decisions have been reached on all of the recommendations.

MCC plans to complete its corrective actions by June 30, 2013, or have documented the appropriate timeline in which actions will be completed.

The OIG acknowledges MCC's management decisions for all 22 recommendations. Please inform us when final action has been achieved.

We appreciate the cooperation and courtesies extended to our staff and to the staff of CliftonLarsonAllen LLP, during the audit. Please contact Fred Jones at (202) 216-6963, if you have any questions concerning this report.

Sincerely,



Richard J. Taylor  
Deputy Assistant Inspector General  
for Audit  
Millennium Challenge Corporation

cc: Steven Kaufmann, Chief of Staff  
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MILLENNIUM CHALLENGE CORPORATION (MCC)

September 30, 2012

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CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## INDEPENDENT AUDITOR'S REPORT

To the Inspector General  
U.S. Agency for International Development

To the Board of Directors  
Millennium Challenge Corporation

We have audited the accompanying balance sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2012, and the related statements of net cost and changes in net position, and the combined statement of budgetary resources ("financial statements") for the year then ended. The objective of our audit was to express an opinion on the fairness of these financial statements. In connection with our audit, we also considered the internal control over financial reporting and considered MCC's compliance with laws and regulations. In our audit, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.);
- One material weakness and three significant deficiencies in internal control over financial reporting and compliance with laws and regulations;
- No instance of reportable noncompliance with selected provisions of laws and regulations tested.

The following sections and exhibits discuss in more detail: (1) above conclusions, (2) Management's Discussion and Analysis (MD&A) and other accompanying information, (3) management's responsibility for the financial statements, (4) our responsibility for the audit, (5) management's response and our evaluation of their response, and (6) the current status of prior year's findings and recommendations.

### Opinion on the Financial Statements

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of MCC as of September 30, 2012 (FY 2012), and its net cost; changes in net position; and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States. The financial statements of MCC as of and for the year ended September 30, 2011 (FY 2011) were audited by other auditors, whose report dated November 10, 2011, expressed an unqualified opinion on those financial statements. MCC reclassified certain financial statement line items of the combined statement of budgetary resources (SBR) for FY 2011 to be consistent with FY 2012 presentation in accordance with accounting principles generally accepted in the United States. The other auditors reported on the financial statements before these reclassifications. We have audited the reclassifications in the SBR. In our opinion, such reclassifications are appropriate and have been properly applied.



## Report on Internal Control over Financial Reporting and Compliance

In planning and performing our audit, we considered MCC's internal control over financial reporting and compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control or on management's assertion on internal control included in the MD&A.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the MCC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a control deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a combination of deficiencies in internal control described in Exhibit 1 that we consider to be a material weakness and other deficiencies described in Exhibit 2 that we consider to be significant deficiencies.

Also, as required by Office of management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we compared the material weakness disclosed during the audit with those material weaknesses reported in the MCC's Federal Managers Financial Integrity Act (FMFIA) report that relate to the financial statements. Our audit did not identify any material weakness that were not identified by MCC in their FMFIA report.

We also noted non-reportable matters that we communicated to MCC and will include in a separate management letter to MCC to be dated November 12, 2012.

## Report on Compliance and Other Matters

In connection with our audit, we performed tests of MCC's compliance with selected provisions of applicable laws and regulations. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 07-04, as amended. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

## Status of Prior Year's Audit Findings and Recommendations

We have reviewed the status of MCC's corrective actions with respect to the findings and recommendations included in prior year's Independent Auditor's Report dated November 10, 2011. The status of prior year's findings and recommendations is presented in Exhibit 3.

### Other Information

Accounting principles generally accepted in the U.S. require that MCC's MD&A be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information included in the Annual Financial Report, other than the financial statements, MD&A, and the Independent Auditor's Report is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Management's Responsibility for the Financial Statements

MCC management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the U.S., (2) designing, implementing, and maintaining internal control to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) complying with other applicable laws and regulations.

### Auditor's Responsibility

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the U.S. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB Bulletin 07-04 requires testing, (3) performing limited procedures with respect to certain other information appearing in the published Annual Financial Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the appropriateness of the accounting policies used and the reasonableness of significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of MCC and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); (5) evaluated the effectiveness of the design of internal control; (6) tested the operating effectiveness of relevant internal controls over financial reporting and compliance; (7) considered the design of the process for



evaluating and reporting on internal control and financial management systems under FMFIA; (8) tested compliance with selected provisions of certain laws and regulations. The procedures selected depend on the auditor's judgment, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. We believe we obtained sufficient and appropriate audit evidence on which to base our conclusions.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to MCC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on MCC's financial statements and those required by OMB Bulletin 07-04 that we deemed applicable to MCC's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

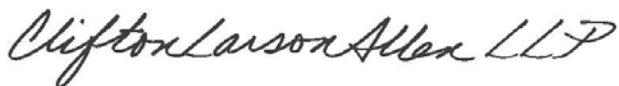
#### **MCC's Comments and our Evaluation**

Management concurred with all our findings and recommendations. Management's response to our report is presented in Exhibit 4.

\*\*\*\*\*

This report is intended solely for the information and use of MCC management, U.S. Agency for International Development (USAID) Office of Inspector General, OMB, the Government Accountability Office (GAO), and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

CLIFTONLARSONALLEN LLP



Arlington, Virginia  
November 12, 2012

**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1  
September 30, 2012**

**MATERIAL WEAKNESS**

**1. Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems**

GAO *Standards for Internal Control in the Federal Government* states that internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Control activity, which is one of the standards for internal control, may be applied in a computerized information system environment, or through manual processes. Information system control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid, and outputs are correct and properly distributed. Some control activities include: controls over information processing, management of human capital, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions. Monitoring, which is another standard for internal control, is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Accounting is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial events. These financial events are ultimately presented in financial statements through the financial reporting process. Each step in the accounting process is an integral part of the financial reporting process.

A financial management system includes the core financial system and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures and controls, data, software, and support personnel dedicated to the operation and maintenance of system functions.

MCC has made significant progress this year by developing and implementing a grant accrual methodology which will be the foundation for future enhancements. MCC has also reduced some manual processes in its financial statements preparation where financial data and new accounts are no longer manually entered and financial data are now automatically populating all statements, including new accounts. However, MCC needs to continue to strengthen its financial reporting processes and controls. The interrelationship among software, personnel, procedures, controls and data within MCC's financial management systems (both manual and automated) is ineffective and inefficient as described below:

- a. MCC uses a shared services provider (SSP) to process its accounting transactions. The SSP's core financial system current configurations prevent MCC from recording significant transactions in a systematic manner. Our review of the September 30, 2012 SSP's open system ticket report, which tracks financial system issues, identified issues that remain unresolved for an unreasonable period of time. Due to the volume and variety of transactional financial events that MCC must record relating to its grantees; MCC frequently has to prepare manual adjustments at the back end of the transactions to correct errors such as the differences between the a) Purchase Order (PO) and General Ledger (GL) module, b) Accounts Payable (AP) and GL module, c) incorrect postings, d) system interface errors, and e) others. This system deficiency, combined with inadequate and untimely corrective actions, negatively impact MCC's ability to record transactions timely, properly, and accurately. Although MCC applied



**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1  
September 30, 2012**

compensating controls to detect and correct these errors, with the sheer volume and complexity of these transactions (automated and manual), there is a high risk that errors will not be detected and corrected timely or not detected at all. Our audit identified instances where this situation occurred. Moreover, this system deficiency negatively impacts MCC's limited staff resources.

OMB Circular A-127, *Financial Management Systems*, which is the government-wide policies and standards issued pursuant to FMFIA, states that agencies are responsible for managing their financial management system even when they utilize a service provider to implement, operate and maintain the systems. Agencies must ensure that their financial management systems meet applicable Federal requirements and are adequately supported throughout the systems' life cycle. Furthermore, agencies must monitor the service provider's performance and ensure that service failures are resolved promptly.

- b. Although MCC has made strides in improving its financial reporting process by implementing certain quality control review processes in response to prior year's findings, much still need to be done. MCC's financial statements preparation process continues to be manually intensive and susceptible to errors even though certain functionalities have been automated. MCC uses a complex excel workbook (workbook) to generate its financial statements. Trial balances from the core financial system and USAID are cut and pasted into the workbook. Manual journal entries and on-top adjustments (OTAs) are also posted into the workbook. The workbook then automatically generates the financial statements from these data inputs. Due to system issues described in 1.a. above, the trial balance generated by the core financial system did not have the prior year final audited balances. Therefore, MCC has to post OTAs pertaining to prior year to correct beginning balances. In addition, MCC posts similar OTAs but for the current year to adjust or correct ending balances. These beginning and ending balances OTAs are posted into the workbook each time the financial statements are prepared (quarterly). Our audit identified instances where MCC missed posting beginning balances OTAs and manual journal entries into the workbook at June 30, 2012 and September 30, 2012.
- c. The workbook utilized in the preparation of the financial statements did not have data edit lock and data change control. The workbook is accessible to many personnel including temporary financial personnel outside of key MCC financial staff, each having the ability to make changes to the workbook. In addition, due to the complexity of the spreadsheets in the workbook with various unprotected formulas and linkages, the risks of data manipulation and/or unintended data changes can introduce errors that would be difficult to detect and may be left undetected. Moreover, due to lack of documented supervisory review of the workbook, we could not verify that supervisory reviews were performed.
- d. In reviewing the June 30, 2012 financial statements, we identified errors that led us to question the effectiveness of supervisory reviews, or the implementation of these reviews due to lack of documented evidence of reviews.

**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1  
September 30, 2012**

- e. Internal control is effected by people. It is not merely about policy manuals, systems, and forms, but about people at every level of an organization that impact internal control. Good human capital policies and practices are critical internal control environmental factors. We understand that MCC has limited staff and has to use temporary year-end financial staff who may not be familiar with the inner working of MCC operations. In addition, MCC relies heavily on contract staff in the preparation and generation of the financial statements. The contract staff holds immense institutional knowledge in the inner workings of MCC's business transactions and various "fixes or adjustments" required for financial reporting and financial statement preparation. MCC runs the risk of not being able to produce fairly presented financial statements timely without these key contract staff.

### **Recommendations**

With regards to the core financial system, we recommend that MCC:

1. Perform a comprehensive review and determine whether the service provider's financial management system is substantially in compliance with the federal financial management system's requirements and meeting MCC financial management and reporting needs. As part of this review, management should determine if a separate grants management system that focuses on program administrations that interfaces with the core financial system is needed.
2. Investigate and correct the causes for the underlying system errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions.
3. Review USSGL transaction posting models so that all routine accounting transactions are included in the normal accounting processes. Manual adjusting journal entries should be used for limited transactions like unusual one-time entries. All valid recurring entries that are currently entered manually should have standard transaction codes set-up to prevent posting errors.

With regards to the workbook, we recommend that MCC:

4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.
5. Limit access and ability to make changes to the workbook to a few personnel. Assign a staff and a designate as primarily responsible and accountable for the workbook.
6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.
7. Investigate the use of alternative approaches such as the use of a financial statement generation software tool or other financial management system that can interface with the trial balance or the core financial system and automatically generate the financial statements.

**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1  
September 30, 2012**

With regards to supervisory reviews, we recommend that MCC:

8. Develop a comprehensive financial statements review process that detail specific review steps performed, results of such reviews, steps taken to resolve discrepancies noted, and related management resolution.
9. Implement an effective management review using the comprehensive review process developed in recommendation 8 to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, current year beginning balances agreed to prior year audited balances, and reconciling items are recorded timely. Such management reviews should be performed quarterly and at year-end timely with evidence of management sign-off signifying levels of reviews performed.

With regards to financial staff resource management, we recommend that MCC:

10. Cross-train MCC financial staff on the financial statements preparation process to ensure that there is more than one person knowledgeable and can prepare the financial statements.



**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 2  
September 30, 2012**

**SIGNIFICANT DEFICIENCIES****2. Validation Control over Grant Accrual Estimates Needs to be Strengthened**

MCC reported approximately \$1.1 billion in compact grant related expenditures and an accrued grant liability of \$106 million for expenditures incurred by the Millennium Challenge Accounts (MCAs) but not yet paid by MCC at September 30, 2012. MCC applied its new grant accrual methodology for the first time at September 30, 2012. The first three quarters' financial statements accruals were based on data calls. MCC revised its methodology in an effort to improve and streamline the accrual process employed in prior year. MCC recognized that prior year grant accrual process, which involved data calls from the MCAs, was based on the best information available at the time. However, this manual process was cumbersome, time consuming, labor intensive, time sensitive, and inconsistent, thus contributing to a high risk for errors. To help MCC reassess this process, MCC hired an audit and consulting firm to provide a detailed analysis and make recommendations on the appropriate methodology for the grant accrual estimate.

MCC new accrual methodology is calculated based on an MCA's unused spending authority. MCC approves a quarterly spending authority in advance for each MCA. The unused spending authority at the end of the quarter is used in the accrual calculation for each MCA. MCC uses the MCA disbursement rate against the spending authority along with the disbursement rates for the last three quarters to determine an average rate. The average rate is then subtracted against 100 percent to arrive at a rate that is applied to the unused spending authority in calculating the grant accrual estimate for the MCA.

In reviewing the calculation of the accrual estimates and the supporting documentation, we noted many instances of calculation errors, use of incorrect spending authority, incorrect formulas, omitted calculations, and missing documentation. Also, there was no documentation of look back analysis and investigations of unusual fluctuations, if any, to validate the reasonableness of the accrual estimates. An accrual look back analysis involves reviewing past accrual estimates and analyzing whether the past estimates are reasonable when compared to the actual. We understand that this is a new methodology and MCC has not had an opportunity to update its Expense Accrual Policy and Procedures and perform a robust validation process.

FASAB Federal Financial Accounting Technical Release (TR) 12, *Accrual Estimates for Grant Programs*, states that "As part of agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting."

**Recommendations**

We recommend that MCC:

11. Perform a grant accrual look back analysis on a quarterly basis for a sufficient period of time to develop a pattern or trend. The look back analysis and the results should provide MCC sufficient information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. Note that the accrued liability amount is subject to the risks that actual

**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 2  
September 30, 2012**

subsequent disbursement amount may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.

12. Update the Expense Accruals Policy and Procedures to reflect the change in the methodology. At a minimum, the policy and procedures should include the following:
  - a. documentation of the procedures and flow of information used in developing grant accrual estimates;
  - b. a discussion of who (position title) is responsible for each step of the estimate as well as the review and approval process followed;
  - c. the model used, the rationale for selecting the specific methodology, and, for programs with sufficient historical data, the degree of calibration within the projected spending model;
  - d. the sources of information, the logic flow, and the mechanics of the model, including the formulas and other mathematical functions.
13. Develop audit procedures for the MCA audit to compare spending authority request amount against actual expenses, and investigate and document significant variances. The results should be provided to MCC, which can use this information collected from the MCA audits as data store to validate or enhance the current methodology.
14. Continue to enhance the accrual methodology by considering the following:
  - a. stratifying the MCAs based on variances in their spending rates and/or stages in the compact's life cycle;
  - b. addressing situations where the MCA exceeds its quarterly spending authority;
  - c. addressing situations where the compact has expired and there is no spending authority and disbursements are still occurring;
  - d. obtaining detailed document level breakdown of expenses to be used to compare against the accrual estimates;
  - e. other factors as deemed necessary to achieve an acceptable precision of the accrual estimate.

**3. Monitoring Control over Funds Provided to MCAs Needs Improvement**

OMB Circular A-123, *Management Responsibility for Internal Control*, states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

An adequate monitoring system oversees the design, implementation, and effectiveness of controls in mitigating risks. This monitoring system can be structured as an ongoing assessment program (for instance, supervisory reviews of day to day financial operations and reporting) or as a point in time program when a point in time assessment is required (for instance, MCA audits).



**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 2  
September 30, 2012**

When a country is awarded a grant (compact), it sets up its own local MCA accountable entity to manage and oversee all aspects of implementing the compact. The MCAs, as the grantees of MCC's funds, are responsible for submitting financial, programmatic and compliance documentation to MCC in accordance with their compact agreements with MCC and other administrative requirements. MCC, as the grantor, is responsible for reviewing and monitoring the MCA's compliance with the compact agreement and other administrative requirements. MCC needs to continue to strengthen its monitoring controls over the funds provided to the MCAs.

*A. Audit Reports*

MCAs are required to obtain an annual (or semi-annual as agreed upon) financial audit of the MCC funds by an independent auditor. We reviewed the audits covering the last two years for 13 MCAs, which accounted for a total of 25 MCA audit reports. Similar to last year's finding, 20 out of 25 (or 80 percent) audit reports were not received timely or were already due but not yet received as of July 20, 2012, our test date. There were 15 audit reports that were submitted late, ranging from 2 months to 9 months late, and 5 audit reports due but not yet received ranging from 1 month to 3 months late as of the test date.

A financial audit of the MCA Fund Accountability Statement conducted by an independent auditor in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, provides an assurance to MCC that the MCA's revenues received, costs incurred, and commodities and technical assistance directly procured by the MCC are not materially misstated, and that tests of MCA's internal control and compliance with compact terms and applicable laws and regulations related to MCC funded programs were performed. The MCA financial audit is a key MCC internal control over monitoring of MCA's control over financial reporting and compliance and its reliance on MCA's financial reports. Accordingly, MCC should ensure that these audits are performed and submitted timely, reviewed timely, and corrective actions, if any, are implemented timely.

A timely audit involves the timely engagement of an audit firm by the MCA, an agreed upon timeline that ensures that the deliverables are provided within the deadlines, quality deliverables from the audit firms, and timely responses from the MCA and the audit firms. MCC has the monitoring responsibility over the audit process, and the USAID OIG has the oversight responsibility over the MCC's monitoring process. The USAID OIG provides oversight by reviewing both the initial and the close-out planning documents received from the MCAs. We understand that both USAID OIG and MCC are working together to minimize the delays in the MCA audits, but more can be done to address the root causes of these delays.

**Recommendations**

15. Monitoring the timeliness, completeness, effectiveness, and implementation of corrective action plans of the MCA audits is ultimately MCC management responsibility. MCC management should have control over how these audits should be conducted to meet its financial and programmatic accountability, needs and requirements. USAID OIG has the oversight responsibility to ensure that MCC management's monitoring of MCA audits are designed properly and operating effectively. We recommend therefore, that MCC management collaborate with USAID OIG to clarify and document management roles,

**MILLENNIUM CHALLENGE CORPORATION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT 2  
September 30, 2012**

responsibilities, and performance standards and the USAID OIG oversight roles with regards to these MCA audits.

16. MCC needs to evaluate its resources, capability, and ability to monitor and review the quality and performance of the audits and the audit firms to track and conduct follow-up of corrective action plans with the MCAs in a timely manner.

*B. Final Quarterly Financial Report (QFR)*

MCC requires the MCA to submit a Schedule C (CPS payments only) of the QFR (final QFR) 30 days prior to the program closure date to ensure that the MCA and the MCC books are reconciled prior to the submission of the final financial report. We reviewed two MCAs that closed in fiscal year 2012 by comparing the award amount, disbursement amount, and the remaining balance from the final QFR to what MCC reported. The final QFRs were received from the MCAs in February and May of 2012. Our review disclosed that the total disbursements and compact balance amounts reported by the MCAs in their final QFRs differed between \$1 million and \$3.5 million from the MCC reported amounts. In one of the MCAs we reviewed, MCC indicated that it has not prepared a reconciliation. In another MCA we tested, MCC provided a spreadsheet that included payment information from the core financial system. There was no clear documentation of a comparison made between the MCA and MCC records, differences noted, and the resolution of differences, if any. However, there were comments throughout the spreadsheet that seemed to indicate no support for some payments, some duplicate payments that have not been resolved, some incorrect payment amounts, and payments made to the wrong fund.

MCC requires the MCA to perform a monthly reconciliation of the CPS monthly Summary Report (of disbursements) from the MCC core financial system to the MCA's accounting records. Corrections are processed through the use of a Payment Inquiry Form (PIF) to address discrepancies and resolve them with the SSP. MCC receives copies of the PIF and a monthly certification letter from the MCA stating that reconciliation was performed and that the MCA records agree with the MCC records. The actual reconciliation is not provided to MCC or to the SSP.

MCC is not taking advantage of important tools in monitoring the MCAs' financial reporting process and validating its financial records. It has not established formal procedures for how the MCAs should document and report their monthly reconciliation of the compact award and expenses. Documented reconciliations will help to expedite the compact close out process. MCC also has not established formal procedures for how the reconciliation to the MCA final QFR is to be documented and the timeline for completion.

**Recommendations**

We recommend that MCC:

17. Utilize the QFRs and the monthly reconciliations as monitoring tools over the MCA's financial reporting process and the MCC's validation of its financial records. To be effective as monitoring tools, the re-designing of the QFR form and the development and documentation of the monthly reconciliation process should ensure that relevant data and information are reported by the MCAs and reported timely.



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18. Ensure that MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.
19. Require the MCA audit firms to test the design and effectiveness of the MCA's internal control over the QFRs and the monthly reconciliation, and to test for the accuracy of the balances and reconciliation.
20. Develop and implement reconciliation procedures to document the complete reconciliation between the MCA's final QFR and MCC's records.

*C. Expired Compacts Not Financially Closed-Out*

As of June 30, 2012, there were six compacts that expired, but were not financially closed-out. The final audit report is due 120 days after the compact end date. The time that has expired since that due date ranges from 5 months to 17 months with a total unliquidated obligations balance of over \$17 million. Untimely de-obligation of funds results in misstated balances or misclassified funds in the statement of budgetary resources.

**Recommendations**

We recommend that MCC:

21. Timely assess the MCA's need for the remaining compact funds so that the funds could be de-obligated within the timeline in the policy and procedures after the compact expires.
22. Develop and implement a financial management policy that separates the programmatic close-out process from the financial close-out process. This policy should clearly layout the expected timing for de-obligation.

**4. Information Systems Controls Need Improvement**

All business processes today are impacted in some respects by information systems applications, policies, and controls. Information system is key to financial information collection, classification, allocations, and reporting.

Information systems controls must be in place to ensure that critical data, transactions and programs are processed in a timely manner. These include controls over MCC's general support system used to gain access to the contractor owned financial applications. Our evaluation of the general and application controls of MCC's key information technology infrastructure identified the following control weaknesses, taken together, constitute a significant deficiency.

*Security Management*

- MCC needs to strengthen personnel out-processing procedures. MCC personnel exit checklists were not maintained in the Staff Track and Reconciliation System (STARS) as required in the MCC Exit Policy and Clearance Procedures. Additionally, while the new exit process had been announced and the technology implemented, the process had not



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been adopted by the stakeholders involved: Human Resources, Contracts, and Office of Security.

- MCC did not properly assess system risks on the agency's general support system, MCCNet and MIDAS system for the fiscal year. For example:
  - MCC did not maintain a current Authorization to Operate (ATO) for the MCCNet General Support System. The ATO expired on June 8, 2012, without MCC completing a reauthorization of the system.
  - MCC did not perform a security impact assessment prior to moving its data center.
  - MCC did not complete a risk assessment to reflect the new data center. The last revision to the risk assessment was dated June 8, 2009.

In addition, a current risk assessment for the MIDAS system was not completed on an annual basis.

- MCC needs to conduct system security assessments as specified by the National Institute of Standards and Technology (NIST). The fiscal year 2012 security assessment for MCCNet reviewed only two control families from NIST Special Publication 800-53, Revision 3: Access Controls and Media Protection. However, the assessment was not in accordance with the NIST Special Publication 800-37, Revision 1, risk management framework and continuous monitoring.
- MCC needs to ensure all personnel receive security awareness training. MCC did not track users who failed to participate in the daily Tips of the Day. In addition, MCC did not establish a required number of tips a user must view each month or year.
- MCC did not fully implement NIST Special Publication 800-53, Revision 3 into its information system security policies. MCC was in the process of updating the Policy; however, it was not finalized.
- The MCCNet system security plan did not accurately reflect the current information system environment.

*Contingency Planning*

- MCC did not perform testing of the MCCNet contingency plan for Fiscal Year (FY) 2012. The last test was conducted in February of 2011; however, the test results and lessons learned were not formally documented and reported until November 2011.

*Access Controls*

- MCC needs to periodically review network accounts. MCC did not perform quarterly reviews of MCCNet group memberships as documented within the MCC Access Control Procedures. In addition, MCC did not review network accounts of users that had never logged into system.

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*Configuration Management*

- MCC needs to strengthen security controls surrounding patch and configuration management. MCC had procedures in place that use vulnerability scanning software to assist in detecting and reporting security vulnerabilities. However, our evaluation identified critical and high vulnerabilities on MCC hosts that MCC did not identify through its scans.
- MCC did not effectively track and maintain their asset inventory. Asset management personnel did not follow a set of documented procedures for how to manage the asset inventory. In addition, MCC did not conduct periodic wall-to-wall asset inventories.
- MCC did not have documented change management procedures that describe types of changes and levels of testing applied to the changes prior to approval by the Configuration Control Board.

These findings highlight the MCC's lack of compliance with the NIST publications, OMB Circulars, and FISMA requirements as listed below:

OMB Circular A-130, *Management of Federal Information Resources*, Appendix III, states "Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications."

The Federal Information Security Management Act of 2002 (FISMA) requires that each agency develop an agency-wide information security program that includes:

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;
- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with organizational policies and procedures designed to reduce these risks;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but no less than annually;
- A process of planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

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By not effectively implementing and enforcing IT policies and procedures, there is an increased risk that financial and sensitive information may be inadvertently or deliberately misused and may result in improper disclosure or theft without detection.

**Recommendation**

We are not repeating our recommendations which are included in the USAID OIG Report titled "Audit of Millennium Challenge Corporation's Fiscal Year 2012 Compliance with Federal Information Security Management Act of 2002," Audit Report M-000-13-001-P, dated November 6, 2012.

**MILLENNIUM CHALLENGE CORPORATION  
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**STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have reviewed the status of MCC corrective actions with respect to the findings and recommendations included in MCC's Report on Internal Control for FY 2011. The following analysis provides our assessment of the progress MCC has made through September 30, 2012 in correcting the noted deficiencies.

<b>FY 2011 Findings</b>	<b>FY 2011 Recommendations</b>	<b>FY 2012 Status</b>
I. MCC's Financial Reporting Needs Improvement – Material Weakness	1. Develop and document a financial reporting process that reduces the likelihood of errors, inconsistencies, and inaccuracies and results in efficiencies and effectiveness, consistency, and accuracy of financial data.	Partially Closed. Financial Reporting Process still in draft. Some conditions identified in FY 2011 still exist in FY 2012 and are reported as MW.
	2. Enhance the quality control process to detect errors or improper closeout of accounts through additional check totals, training, and involvement of additional A&F staff members.	Partially Closed. Some conditions identified in FY 2011 still exist in FY 2012 and are reported as MW.
II. Controls over MCC Accrued Expenses, Retentions, and Advances Need Improvement – Material Weakness (MW)	3. Develop an appropriate MCC data store of MCA expense information as required by TR 12.	Partially Closed. Some conditions identified in FY 2011 still exist in FY 2012 and are reported as Significant Deficiency (SD).
	4. Perform similar data validation employed at year-end for each quarter going forward.	Closed – New accrual methodology adopted in FY 2012
	5. Prepare an MCC developed estimate for accrued expenses based upon statistical modeling or alternative that is based on MCC obtained data.	Closed
	6. Record advances in accordance with generally accepted accounting principles.	Closed
	7. Develop and implement a periodic reconciliation process for advances.	Closed
	8. Develop and implement a quarterly certification for advance transactions processed by the MCAs as part of the quarterly data call submission.	Closed



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	9. Modify MCA audit requirements to include testing and reporting of advances transactions.	Partially Closed. MCC proposed changes to MCA Audit Guide to address the testing and reporting of advances transactions. However, the changes have not been finalized and implemented by the MCAs.
III. MCA Required Documentation, including Audit Reports, Quarterly Disbursement Requests and Compact Closure Plans are not Submitted, Reviewed, and/or Approved in a Timely Manner – Significant Deficiency (SD)	10. Collaborate with the OIG and provide the MCA auditors with a document discussing the issues/errors that have led to delays in processing and clearing the audit plans and audit reports in a timely manner.	Closed
	11. Provide comprehensive guidance to MCAs regarding the procurement of firms to perform the FAS audits with a focus on timeliness and completeness of the audit deliverables and potential penalties.	Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as SD.
	12. Continue to collaborate with the OIG to improve communications regarding audit status and solutions to moving individual audits to completion on a timely basis.	Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as SD.
	13. Reiterate the program requirements that QDRs are to be accurate and complete and submitted within the required timelines and provide them with information about issues/things that cause delays.	Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as management letter (ML)

**MILLENNIUM CHALLENGE CORPORATION  
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September 30, 2012**

	14. Review their current guidelines for submission of CCPs to determine if the timelines is reasonable and realistic. In addition, DCO should work closely with MCAs to develop and compile a compact closure plan and resolve any outstanding items in advance of compact closure.	Recommendation Closed. However, certain conditions identified in FY 2011 still exist in FY 2012 and are reported as ML.
IV. Reconciling Fund Balance with Treasury – SD	15. Continue to follow USAID's progress towards elimination of cash balance differences between USAID and Treasury and timely clearing of suspense account items in order to monitor MCC's risks of potential misstatements.	Recommendation Closed. However, the condition still exist in FY 2012 and is reported as ML.



Exhibit 4

November 13, 2012

Mia Leswing, CPA, CISA, CGFM, Partner  
CliftonLarsonAllen, LLP  
4250 N. Fairfax Drive  
Suite 1020  
Arlington, VA 22203

Richard J. Taylor  
Deputy Assistant Inspector General/Audit  
Millennium Challenge Corporation  
1401 H Street, NW, Suite 770  
Washington, DC 20005

Dear Ms. Leswing and Mr. Taylor:

MCC has reviewed the draft audit report received November 9, 2012. In response to audit findings characterized as material weaknesses and significant deficiencies, as well as the associated recommendations, MCC has the following comments:

***Material Weakness: Ineffective and Inefficient Interrelationship Among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems***

Recommendations from the auditors:

1. Perform a comprehensive review and determine whether the service provider's financial management system is substantially in compliance with the federal financial management systems' requirements and meeting MCC needs. As part of this review determine if a separate grants management system that focuses on program administration that interfaces with the core financial system is needed.
2. Investigate and correct the causes for the underlying systems errors and limitations that prevent or delay the recording, processing, and summarizing of accounting transactions.
3. Review USGGL transaction posting models so that all routine accounting transactions are included in the normal accounting processes. Manual adjusting journal entries should be used for limited transactions like one-time entries. All valid recurring entries that are currently entered manually should have transaction codes set-up to prevent posting errors.
4. Hard code key cells in the excel spreadsheets used in preparing and generating the financial statements to prevent unintentional or inadvertent changes.
5. Limit access and ability to make changes to the workbook to a few personnel. Assign a staff and designate as primarily responsible and accountable for the workbook.
6. Create a log to document changes to the workbook, the date of change, the person making the change, and the changes made.
7. Investigate the use of alternative approaches such as the use of a financial statement generation software tool or other financial management system that can interface with the trial balance or the core financial system and automatically generate the financial statements.

8. Develop a comprehensive financial statements review process that details specific steps performed, results of such reviews, steps taken to resolve discrepancies noted, and related management resolution.
9. Implement an effective management review using the comprehensive review process developed in recommendation 8 to ensure that all transactions for the accounting period are accurately and completely reflected in the financial statements, current year beginning balances agreed to prior year audited balances, reconciling items are recorded timely and others. Such management reviews should be performed quarterly and at year-end timely with evidence of management sign-off signifying levels of reviews performed.
10. Cross-train MCC financial staff on the financial statements preparation process to ensure that there is more than one person knowledgeable and can prepare the financial statements.

Response from MCC:

MCC concurs with recommendations 1 through 10.

***Significant Deficiency: Validation Control over Grant Accrual Estimates Needs to be Strengthened***

Recommendations from the auditors:

11. Perform the grant accrual look back analysis on a quarterly basis. The look back analysis methodology and results should provide MCC sufficient information to explain unusual variances between actual and estimates, or support updating the current grant accrual methodology. Such periodic assessment of the adequacy of the grant accrual methodology should be documented and supported by data analysis. The liability amount is subject to risk that actual subsequent disbursement amount may be significantly different from management's estimate. When this occurs, management should further analyze the drivers/factors to ensure the validity and reasonableness of the estimation methodology.
12. Update the Expense Accruals Policy and Procedures to reflect the change in the methodology.
13. Consider developing audit procedures for the MCA audit to compare spending authority request amount against actual expenses, and investigate and document significant variances. The results should be provided to MCC and used this information collected from the MCA audits as data store to validate or enhance the current methodology.
14. Continue to enhance the accrual methodology.

Response from MCC:

MCC concurs with recommendations 11 through 14.

***Significant Deficiency: Monitoring Control over Funds Provided to Millennium Challenge Accounts (MCAs) Needs Improvement***

Recommendations from the auditors:

15. MCC management should have control over how these audits should be conducted to meet its financial and programmatic accountability, needs and requirements. MCC management should collaborate with USAID OIG to clarify and document management roles, responsibilities, and performance standards and the USAID OIG oversight roles with regards to MCA audits.
16. MCC needs to evaluate its resources, capability, and ability to monitor and review the quality and performance of the audits and the audit firms, to track and conduct follow-up of corrective action plans with the MCAs.
17. Utilize the QFRs and the monthly reconciliations as monitoring tools over the MCA's financial reporting process and validating MCC's financial records. To be effective



monitoring tools, the re-designing of the QFR form and the development and documentation of the monthly reconciliation process should ensure that relevant data and information are reported by the MCAs and reported timely.

18. Ensure that MCA reconciliations are provided to MCC and reviewed to investigate material variances and make corrections, if any.
19. Require the MCA audit firms to test the design and effectiveness of the MCA's internal control over the QFRs and the monthly reconciliation and to test for the accuracy of the balances and reconciliation.
20. Develop and implement reconciliation procedures to document the complete reconciliation between the MCA's final QFR and MCC's records.
21. Timely assess the MCA's needs for the remaining compact funds so that the funds could be de-obligated within the timeline in the policy and procedures after the compact expires.
22. Develop and implement a financial management policy that separates the programmatic close-out process from the financial close-out process. This policy should clearly layout the expected timing for de-obligation.

Response from MCC:

MCC concurs with recommendations 15 through 22.

***Significant Deficiency: Information Systems Controls Need Improvement***

Recommendations from the auditors:

23. Repeat recommendations from the FISMA Report.

Response from MCC:

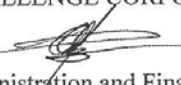
MCC concurs with recommendations in the FISMA Report

MCC will be addressing each recommendation as part of a comprehensive corrective action plan beginning in the first quarter of FY 2013 with the intent to develop and implement necessary changes as soon as possible.

Sincerely,

MILLENNIUM CHALLENGE CORPORATION

By:

Chantale Wong   
Vice President, Administration and Finance, and  
Chief Financial Officer  
Millennium Challenge Corporation

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Ave, NW  
Washington, DC 20523  
Tel: (202) 712-1150  
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## Other Accompanying Information







*Office of Inspector General*

ECT 10 2012

Mr. Daniel W. Yohannes  
Chief Executive Officer  
Millennium Challenge Corporation  
875 15th Street NW  
Washington, DC 20005

Dear Mr. Yohannes:

The enclosed statement summarizes the Office of Inspector General's (OIG) conclusions on the most serious management and performance challenges facing the Millennium Challenge Corporation (MCC). Our decisions on which challenges to report were based primarily on audits and analyses performed on MCC's operations. More challenges may exist in areas that we have not yet reviewed, and other significant findings may result from further work.

The Reports Consolidations Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's inspector general, summarizing the most serious management and performance challenges facing the agency and reporting the agency's progress in addressing those challenges. The enclosed statement will be included in MCC's fiscal year 2012 agency financial report.

We have discussed the management and performance challenges summarized in this statement with responsible MCC officials. If you have any questions or wish to discuss the statement further, please contact me or Richard Taylor, Deputy Assistant Inspector General for Audit for the Millennium Challenge Corporation.

Sincerely,

Michael Carroll  
Deputy Inspector General

Enclosure

U.S. Agency for International Development  
1300 Pennsylvania Ave. N.W.  
Washington, D.C. 20523  
[www.usaid.gov](http://www.usaid.gov)

## Management Challenges Identified by the Inspector General

**STATEMENT BY THE OFFICE OF INSPECTOR GENERAL:  
MILLENNIUM CHALLENGE CORPORATION'S MOST SERIOUS MANAGEMENT  
AND PERFORMANCE CHALLENGES**

**Fiscal Year 2012**

The Millennium Challenge Corporation (MCC) faces its most serious management and performance challenges in the following areas:

- Financial Management
- Information Technology Management
- Managing for Results

**Financial Management**

Financial management is critical to providing reliable financial information, managing results, and ensuring the effectiveness and efficiency of operations, including the use of an entity's resources. Significant MCC activities, liabilities, and expenses occur in the compact programs implemented by various Millennium Challenge Accounts (MCAs) across the globe.

MCC received an unqualified opinion on its FY 2011 financial statements; however, the audit report included two material weaknesses and two significant deficiencies in internal control.

During FY 2012, MCC continued its efforts to improve its financial management system; however, the current audit has identified issues that indicate ongoing challenges in MCC's ability to prepare complete and reliable financial statements. The challenges include the following:

**Recording Compact Recipient Accruals and Advances.** MCC's financial management system follows the guidance prescribed by the Federal Accounting Standards Board, whereas the independent MCAs established by recipient countries do not. MCC is in the process of addressing this challenge by adjusting its Advances and Liabilities accounts at the MCC level, in order to bring the cash basis reporting by MCAs to MCC's accrual basis. MCC has revised its accrual methodology by incorporating disbursement history, unused spending authority, and invoices received but not paid to estimate accruals. MCC will use this methodology to estimate accruals as of September 30, 2012. Advances will still be reported based on information provided by the MCAs through data calls. MCC should continue its efforts to enhance its accrual (liability) and advance (asset) estimation methodology for its compact recipients. In addition, MCC should implement policies and procedures to assess the accuracy of the estimation assumptions and methodology.



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**Manual Financial Processes.** MCC's accounting department continues to rely on manual financial reporting processes and quality control. This is a control deficiency because manual processes are vulnerable to human error.

#### **Information Technology Management**

Since FY 2008, OIG has reported information technology (IT) management challenges affecting MCC. For FY 2013, OIG considers MCC's Privacy Program and its IT Governance Program to be serious management challenges.

**Privacy Program.** Last year OIG removed MCC's Privacy Program from its listing of serious management challenges because MCC had reported that final action had been taken on all 18 recommendations in OIG's July 2010 audit report<sup>1</sup>. However, during FY 2012 the OIG followed up on MCC's implementation of selected recommendations from that report and compliance with new privacy requirements. The audit concluded that 5 recommendations had not been fully implemented and identified a number of new weaknesses. Therefore, OIG made 22 recommendations to further strengthen MCC's Privacy Program. Consequently, OIG considers MCC's Privacy Program to be a management challenge.

**IT Governance.** Similar to last year, OIG continues to consider IT governance as a serious management challenge. In June 2011, an OIG contractor reported that weaknesses in MCC's IT governance processes may (1) increase IT project costs, (2) lengthen deployment, and (3) deliver solutions that do not satisfy business needs. Similarly, in January 2011, OIG reported that such risks led MCC to spend more than \$6.9 million for a system that only partially met its needs. The two reports included 32 recommendations to help MCC achieve an appropriate level of IT governance and control. In response, MCC developed a 17-month plan as a roadmap to improve IT management, with the final phase to be completed by December 2012.

#### **Managing for Results**

MCC has approved 26 compact agreements totaling approximately \$9.3 billion in foreign aid to reduce poverty and increase economic growth through programs to improve the efficiency of moving people and goods and the productivity of the agriculture sector among other programs. MCC faces challenges for ensuring that these programs achieve planned results.

**Compact Planning.** In its FY 2012 review of 23 compacts signed from 2005 to 2011, OIG found that 6 compacts had been significantly modified with changes exceeding \$10 million per compact because of incomplete planning.<sup>2</sup> Incomplete planning occurred because critical studies, such as final feasibility studies, were not completed until after entry into force. MCC has undertaken efforts to strengthen the compact development process by revising its *Compact Development Guidance* in January 2012.

<sup>1</sup> Audit of the Millennium Challenge Corporation's Implementation of Key Components of a Privacy Program for its Information Technology Systems, Report No. M-000-10-003-P dated July 9, 2010.

<sup>2</sup> Incomplete planning was identified in El Salvador, Ghana, Mali, Morocco, Mozambique, and Tanzania.



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**Compact Implementation.** OIG identified implementation challenges that resulted in significant modifications to 7 MCC compacts in its FY 2012 review of 23 compacts.<sup>3</sup> These implementation challenges took many forms, including unfilled host-country agreements, increased costs during implementation, underperforming/nonperforming contractors, and environmental risks not identified during the project planning stage. To address these issues, MCC has taken actions including cancelling projects or portions of them, reallocating funds from other projects to cover budget shortfalls, and terminating contractors and rebidding contracts.

**Sustainability.** In addition, an audit found that MCC needed to improve the quality of construction and renovation of schools in Namibia: the drainage around the new schools and latrines was not always sufficient to prevent flooding caused by heavy rains and masonry workmanship was of poor quality. Improved project execution could better ensure the long-term sustainability of the schools. Finally, an audit found that unless health services were properly decentralized and functional upon health center completion in Lesotho, risk to the sustainability of the health centers existed, for example, in drug, waste, and facilities management.

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<sup>3</sup> Implementation challenges were identified in Benin, El Salvador, Ghana, Mali, Mongolia, Morocco, and Vanuatu.

# Management's Response to the Inspector General's Assessment of Challenges Facing the MCC

TO: Michael Carroll  
Deputy Inspector General

FROM: Chantale Y. Wong / s /  
Vice President, Administration and Finance and Chief Financial Officer

DATE: November 15, 2012

SUBJECT: Management Response to Statement by the Office of Inspector General (OIG) on MCC's Most Serious Management and Performance Challenges Fiscal Year 2012

In its FY 2012 Statement of MCC's Most Serious Management and Performance Challenges, the OIG identified three areas of concern:

1. Financial Management
2. Information Technology Management
3. Managing for Results

MCC concurs that these areas are challenges to our organization, and we are taking aggressive action to improve our performance. We appreciate that the OIG recognized our efforts to date, and we welcome your continued involvement as we improve and enhance our ability to perform MCC's mission effectively.

Specific comments on the three areas of concern are as follows:

## Financial Management

MCC notes the OIG's acknowledgement that MCC has continued to improve its financial management reporting capabilities in FY 2012. We made significant progress in the development of a grant accrual expense estimation methodology. Implementation of this methodology at year end was an important first step in the process of estimating accrued expenses in the most cost-effective manner possible. MCC is moving ahead with developing a methodology for estimating advances to MCA grantees while ensuring its financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).

In addition, we implemented several improvements to our financial reporting procedures and strengthened quality control measures. We eliminated most manual data entry steps in our financial statement preparation procedures by better utilizing automated processes. We also added accounting staff which enables us to further segregate duties, conduct more detailed analysis and quality reviews, and facilitate

management review. Further, we are in the planning stages of redesigning our organizational structure to be more efficient and functionally aligned.

## **Information Technology Management**

MCC is addressing OIG concerns with the MCC Privacy Program and MCC IT Governance. MCC hired an independent firm that began a detailed assessment in October 2012 to evaluate the Security Program and Privacy Program and validate our existing policies and ensure that we comply with Government-wide policies and requirements. The contractor will complete this assessment by December 31, 2012. Beginning January 1, 2013, another independent firm will perform a full Certification and Accreditation evaluation of MCC's IT infrastructure.

In May 2011, the OIG issued findings on MCC's IT governance and project management. To address these findings, MCC developed a Combined Corrective Action Plan (CCAP). As part of the CCAP, MCC developed, published and implemented IT governance policies and re-organized IT projects to delineate IT responsibilities. MCC is on target to complete the CCAP by December 2012.

## **Managing for Results**

The OIG identified three aspects of managing for results that needed improvement.

### **Compact Planning**

The OIG found that six compacts were modified due as a result of incomplete planning. The OIG acknowledges that MCC has taken concrete steps to improve planning, including through strengthened Compact Development Guidance, updated in January 2012, which focuses on earlier completion of key project preparation studies MCC will revise the guidance annually to ensure that compact development reflects lessons learned and best practices.

### **Compact Implementation**

The OIG also found that modifications in 7 compact programs were the result of implementation challenges. In its review, the OIG cites a wide variety of challenges that MCC has faced in the implementation of compact programs, including cost overruns, poor contractor performance, exchange rate fluctuations, price increases for construction materials, and delayed completion of engineering designs. These challenges are neither unique to MCC, nor the developing countries where MCC works. Indeed, implementation challenges of the kinds reported in the Inspector General report are common given the complexity of large projects, whether in the United States or overseas.

Many of the compact modifications listed in the report resulted from changing country conditions (such as exchange rate fluctuations). Given MCC's strict five year implementation timeline and fixed funding levels for compact agreements, cost overruns resulting from changes in market conditions will inevitably lead to project modifications. In such situations, ensuring that scarce taxpayer resources are directed to activities with the greatest potential for impact is also a demonstration of good management.

Most importantly, project modifications reflect prudent management of taxpayer resources by MCC. The modifications demonstrate that MCC has been willing to take tough decisions and terminate funding for projects with major flaws such as low economic returns or elevated environmental risks. MCC has also terminated funding for projects due to lack of progress on the implementation of key public policies necessary for a project's success.

## Sustainability

Sustainability is important to MCC in all of its projects. Throughout the project life cycle—from project selection through completion, sustainability concerns have influenced design and driven MCC's policy dialogue with partner countries.

During compact development, one of the factors MCC uses to assess the viability of country project proposals is the technical, institutional and financial ability of the country to operate and maintain a proposed asset. MCC strongly discourages countries from selecting projects that would impose an undue maintenance burden on national budgets.

Once projects are selected, MCC's Compact Development Guidance requires a thorough assessment among of the ability of the country to sustain the project over time. MCC insists on high standards of quality to lower maintenance and repair costs over time, even as it conducts assessments to key institutional constraints to sustainability in the areas of cost, budget, planning, and execution. To remedy identified weaknesses, MCC may incorporate activities that mitigate the identified constraints and improve policy and institutional frameworks to improve governance across an entire sector.

With respect to the audit findings in Namibia, MCC noted in its management response that the standing water observed by the OIG during site visits was caused by extraordinary flooding, the worst in Namibia's recorded history, which exceeded any reasonable and affordable threshold of risk mitigation actions as well as any previously-recorded water levels. Nonetheless, MCC will continue to implement appropriate water damage and flood mitigation measures to protect MCC's investments for the design life of the projects. Corrective action was also taken to remediate deficiencies in workmanship and increase on-site construction supervision. With respect to the findings in Lesotho, MCC is working with the Government of Lesotho and other donors on health service decentralization concerns, and is satisfied with progress being made.

## Summaries of Financial Statement Audit and Management Assurances

**Table 1. Summary of Financial Statement Audit**

<b>Audit Opinion</b>	Unqualified					
<b>Restatement</b>	No					
	Beginning Balance	New	Resolved	Consolidated	Ending Balance	
<b>Material Weaknesses</b>						
Controls over MCC Accrued Expenses, Retentions, and Advances	1		1			0
Financial Reporting	1			1		0
Ineffective and Inefficient Interrelationship among Software, Personnel, Procedures, Controls and Data within MCC's Financial Management Systems		1				1
<b>Total Material Weaknesses</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>		<b>1</b>

**Table 2. Summary of Management Assurances**
**Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)**
**Statement of Assurance** Qualified

	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>Material Weaknesses</b>						
Financial Statement Preparation and Financial Reporting Processes Need Improvement	0	1				1
<b>Total Material Weaknesses</b>	<b>0</b>	<b>1</b>				<b>1</b>

**Effectiveness of Internal Control over Operations (FMFIA Section 2)**
**Statement of Assurance** Unqualified

	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>Material Weaknesses</b>						
None Cited	0					0
<b>Total Material Weaknesses</b>	<b>0</b>					<b>0</b>

Conformance with Financial Management System Requirements (FMFIA Section 4)						
Statement of Assurance		Systems Conform				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None Cited	0					0
Total Material Weaknesses	0					0



## Improper Payments Information Act Report

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix C, Part I defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

### Risk Assessment

A risk assessment was conducted for each of MCC's funds listed below. The risk assessment incorporated various risk factors as identified in Appendix C. Based upon the risk assessment, four funds: Compacts, 609(g), Admin2, and Due Diligence, were considered to have a higher risk of improper payments due to the high volume of transactions and higher dollar amounts of disbursements. These four funds were selected for statistical sampling and subsequent determination of an improper payment rate.

### List of MCC Funds

- Compacts
- 609G
- Admin/Admin 2
- Due Diligence
- CIF
- Audit

### Statistical Sampling

The objective of sampling was to:

- Select a statistically valid random sample of sufficient size for each fund to support an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of improper payments.

- Select a sample from all disbursement transactions exceeding \$25,000 and compose the population so that each item had an opportunity for selection.
- Select a representative sample to reach a conclusion on the error rate by projecting the results of the sample to the population and calculating the estimated amount of improper payments made in those funds (gross total of both over and under payments (i.e., not the net of over and under payments)).

The sample size was determined using the sample size formula provided in OMB Circular No. A-123, Appendix C. The estimated percentage of erroneous payments was determined using the improper payment error rate for FY 2011 determined from MCC's Financial Payment Data Report. Known rates are a good indicator of future rates, especially in cases where rates are currently low. In order to increase conservatism and coverage, one percent was added to the improper payment rate. This resulted in an increased sample size and allowed for greater assurance of the improper payment rate reported.

Using the sample size formula (adjusted to increase conservatism and coverage), a minimum of 44 samples were calculated for testing during the FY 2012 Improper Payments Information Act reporting period. This sample size met the precision requirements specified in OMB Circular No. A-123, Appendix C. To obtain an even number of transactions to be tested, the total minimum sample size was adjusted upward to an annual total of 48 transactions, or 12 samples for each of the four funds considered high risk.

Samples were randomly selected from all accounting lines exceeding \$25,000 that composed the populations with the exception of payroll and intragovernmental payment and collection (IPAC) transactions, so that each item had an opportunity for selection. Transactions under \$25,000 were excluded to focus emphasis on more material transactions and overpayments. Transactions under \$25,000 did not have a significant impact on improper payment reporting thresholds. Therefore, to gain efficiency, low-dollar transactions were excluded from the sampling procedures.

## Improper Payment Reporting

The risk assessment results did not identify any funds that met the OMB threshold of significant erroneous payments, defined as gross annual improper payments in the program exceeding (1) both 2.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported, or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays). Although MCC did not meet the OMB threshold, MCC tested four of its funds to determine if the Agency could identify any significant improper payments. MCC did not identify any improper payments from the sample of disbursements tested.

However, MCC self-identified and reported improper payments in the amount of \$237,280.81 as a result of a technical error that occurred during the implementation of an Oracle Federal Financials system database management system upgrade from 11i to Release 12. The error caused data integrity to become compromised for

certain transactions, which resulted in improper payments being issued. The errors resulting from the upgrade were considered an isolated incident and not subject to additional testing. In addition, MCC self-identified and reported noncompliance with the Prompt Payment Final Rule, which resulted in the payment of interest on invoices totaling \$4,043.29. Of the \$4,043.29 interest paid, \$212.89 related to the self-identified improper payments (\$237,280.81) due to the Oracle Federal Financials system upgrade.

Per OMB Circular No. A-123, Appendix C, Part 1, MCC programs were not determined to be susceptible to significant erroneous payments and as such, payment recapture audits were not included in the scope of the FY 2012 review.

## Corrective Actions

The overall total of \$241,324.10 reported as improper payments are part of the OMB defined category of Administrative and Documentation errors. The amounts identified within the Administrative and Documentation category represented interest payments and a technical payment error. MCC and NBC, its shared services provider, identified a technical error that occurred during the implementation of a software upgrade for the Oracle database management system underlying the Oracle Federal Financials system. The error caused data integrity to become compromised for certain transactions, which resulted in improper payments being issued.

- MCC and NBC will work to improve the processing of payments and the integrity of its Oracle database management system by implementing the following corrective actions in order to reduce or eliminate this category of payment errors:
- Reviewing and processing invoices timely to avoid payment of interest charges (complying with the Prompt Pay Final Rule); and
- Testing and validating the results from implementing future software upgrades prior to executing any payments to vendors and contractors.



# Appendices





Acronym	Definition
AFR	Agency Financial Report
CCAP	Comprehensive Corrective Action Plan
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act of 1996
DOL	Department of Labor
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FISMA	Federal Information Management Security Act of 2002
FMFIA	Federal Managers' Financial Integrity Act of 1982
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
IPAC	Intragovernmental Payment and Collection
IT	Information technology
LIC	Low Income Country
LMIC	Lower Middle Income Country
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
NBC	National Business Center of the Department of the Interior; MCC's payroll and financial services provider
OIG	Office of Inspector General
OMB	Office of Management and Budget
PP&E	Property, Plant, & Equipment
SBR	Statement of Budgetary Resources
SF	Standard Form
TSP	Thrift Savings Plan
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development

## Appendix A

## Acronyms





The Millennium Challenge Corporation is an innovative and independent U.S. foreign aid agency that is helping lead the fight against global poverty. Created by the U.S. Congress in 2004 with strong bipartisan support, MCC is changing the conversation on how best to deliver smart U.S. foreign aid by focusing on good policies, country ownership, and results.

## MCC Compacts Lead to Economic Growth

An MCC compact is a multi-year agreement between the Millennium Challenge Corporation and a partner country to fund specific programs designed to reduce poverty and stimulate economic growth. Recognizing that sustainable development is best achieved by fostering country ownership, good policies, and investment in people, MCC provides selected eligible countries the opportunity to identify their own priorities for achieving economic growth and poverty reduction.

Every MCC compact reflects its country's specific priorities and details program objectives, implementation methods, and monitoring and evaluation strategies, while ensuring financial accountability, transparency, and fair and open procurement processes. To date, MCC has signed 26 development assistance compacts totaling nearly \$9.3 billion.

## Summary of MCC Compacts

### Armenia

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The \$178 million Armenia Compact focused on increasing economic performance in the agricultural sector. The compact consisted of strategic investments in rural roads and irrigated agriculture to provide communities and rural residents with reduced transport costs and better access to jobs, markets and social services; and to increase productivity of 250,000 farmer households through improved water supply, higher yields, higher-value crops, and a more competitive agricultural sector. In June 2009, the MCC Board of Directors enacted a hold on funding for further road construction and rehabilitation as a result of Government of Armenia actions inconsistent with MCC principles promoting democratic governance. The compact was completed in September 2011.

### Benin

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The \$302 million Benin Compact sought to increase investment and private sector activity in Benin. The compact was comprised of four projects: increasing access to land through more secure and useful land tenure; expanding access to financial services through grants given to micro, small, and medium enterprises; providing access to justice by bringing courts closer to rural populations; and improving access to markets by eliminating physical and procedural constraints currently hindering the flow of goods through the Port of Cotonou. The compact was completed in September 2011; MCC's Board of Directors has selected Benin as eligible to develop a proposal for a second compact.

## Appendix B

## Summaries of Compact and Threshold Programs

## Burkina Faso

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The \$480 million Burkina Faso Compact will increase investment in rural productivity through improved land tenure security and land management; increase the volume and value of agricultural production through investments in water management and irrigation, technical assistance to farmers, and rural credit; and increase opportunities for farmers to sell agricultural goods and livestock by rehabilitating rural and primary roads. As an extension of Burkina Faso's successful MCC Threshold Program, the compact also funds the construction of three classrooms each at 132 "girl-friendly" schools for grades four through six.

## Cape Verde I and II

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The \$110 million Cape Verde Compact helped Cape Verde achieve its national development goal of transforming its economy from aid-dependency to sustainable, private sector-led growth. The compact sought to increase rural incomes of the poor by increasing agricultural productivity, integrating internal markets, reducing transportation costs, and developing the private sector through greater private sector investment and financial sector reform. The compact was completed in October 2010; Cape Verde's second compact was signed in February 2012.

Cape Verde's \$66 million second compact is designed to reduce poverty through economic growth. The two projects in this compact are intended to increase household incomes by reforming two sectors identified as current constraints to economic growth: the water and sanitation sector and the land management sector. This compact builds off the success of Cape Verde's first MCC compact and upholds high standards for accountability, transparency and achieving results.

## El Salvador

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The \$461 million El Salvador Compact seeks to improve the lives of Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. The compact's Human Development Project is designed to increase employment opportunities for the region's poorest inhabitants and provide greater access to safe water and sanitation services. The compact was completed in September 2012; MCC's Board of Directors has selected El Salvador as eligible to develop a proposal for a second compact.

## Georgia

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The \$395 million Georgia Compact helped Georgians reduce poverty by renovating key regional infrastructure and improving the development of regional enterprises. The compact enhanced productivity in farms, agribusinesses and other enterprises that will increase jobs and rural income. The compact was completed in April 2011; MCC's Board of Directors has selected Georgia as eligible to develop a proposal for a second compact.

## Ghana

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The \$547 million Ghana Compact sought to reduce poverty by raising farmer incomes through private sector-led, agribusiness development. Specifically, MCC investments were designed to increase the production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions and to enhance the competitiveness of Ghana's agricultural products in regional and international markets. The compact was completed in February 2012; MCC's Board of Directors has selected Ghana as eligible to develop a proposal for a second compact.

## Honduras

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The \$205 million Honduras Compact sought to reduce poverty by increasing farmer productivity and entrepreneurship, and by reducing transportation costs between targeted production centers and national, regional and global markets. In September 2009, MCC's Board of Directors partially terminated the Honduras Compact as a result of Government of Honduras actions inconsistent with MCC's eligibility criteria. The compact was completed in September 2010; MCC's Board of Directors selected Honduras as eligible to develop an MCC Threshold Program.

## Indonesia

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The five-year, \$600 million Indonesia Compact seeks to increase household incomes through three projects designed to increase productivity, reduce energy costs, and improve natural resource management; reduce and prevent low birth weight, childhood stunting, and malnourishment of children; and improve provision of public sector growth-enhancing goods and services.

## Jordan

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The \$275 million Jordan Compact funds three integrated projects focused on improving water supply, wastewater collection, and wastewater treatment and reuse. These projects will improve water delivery, decrease costs of potable water, and upgrade in-home water systems. They will also increase the amount of wastewater collected for treatment and reduce the incidents of sewage overflow. Finally, the compact will increase the volume of treated water that is available as a substitute for freshwater for non-domestic uses.

## Lesotho

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The \$363 million Lesotho Compact is expected to have an economy-wide impact, affecting the entire population of Lesotho. The compact seeks to increase water supplies for industrial and domestic use; alleviate the devastating effects of poor maternal health, HIV/AIDS, tuberculosis and other diseases by substantially strengthening the country's health care infrastructure and human resources for health capacity; and remove barriers to foreign and local private-sector investment.

## Madagascar

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The \$86 million Madagascar Compact was designed to raise incomes by assisting the rural population transition from subsistence agriculture to a market-driven growth. The compact included three projects to help rural Malagasy secure formal property rights to land; access credit and protect savings; and receive training in agricultural production, management and marketing techniques. In May 2009, MCC's Board of Directors terminated the Madagascar Compact as a result of Government of Madagascar actions inconsistent with MCC's eligibility criteria.

## Malawi

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The \$351 million Malawi Compact is a single-sector program focusing on activities that aim to revitalize Malawi's power sector. By reducing power outages and technical losses, enhancing the sustainability and efficiency of hydropower generation, and improving service to electricity consumers, the compact intends to reduce energy costs to enterprises and households; improve productivity in the agriculture, manufacturing and services sectors; and support the preservation and creation of employment opportunities in the economy.

## Mali

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The \$461 million Mali Compact sought to increase the productivity of the agriculture sector and regional enterprises. The compact was designed to serve as a catalyst for sustainable economic growth and poverty reduction through key infrastructure investments capitalizing on two of Mali's major assets, the Bamako-Sénou International Airport, a gateway for regional and international trade; and the Niger River, a valuable source for irrigated agriculture. In May 2012, the MCC Board of Directors concurred in the CEO's recommendation to terminate the Mali Compact due to an undemocratic change in government. The Mali Compact was officially terminated on August 24, 2012 and final administrative close of the compact is expected by December 10, 2012.

## Moldova

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The \$262 million Moldova Compact will improve irrigation infrastructure and management; increase the production and marketing of high value agricultural products; and rehabilitate part of the country's national road network. The highway is a key link for passenger travel and for internal commerce and trade; the repairs will reduce the time and cost to transport goods and services, and will reduce losses to the national economy resulting from deteriorated road conditions.

## Mongolia

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The \$285 million Mongolia Compact seeks to increase economic activity by improving the ability of Mongolians to register and obtain clear titles to their land, expand vocational education in core technical skills, and focus on the health and well-being of the labor force by reducing non-communicable diseases and injuries. The compact is also promoting the introduction of alternative energy and energy-efficient products to the market economy and is constructing transportation infrastructure to accommodate heavy traffic into Mongolia's capital city.

## Morocco

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The \$698 million Morocco Compact seeks to increase productivity and improve employment in high-potential sectors including investments in fruit tree productivity, small-scale fisheries, and artisan crafts. Investments in financial services will also support entrepreneurship, small business development, and market growth.

## Mozambique

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The \$507 million Mozambique Compact seeks to increase the productive capacity of the population in selected districts with the intended impact of reducing the poverty rate, increasing household income and employment, and reducing chronic malnutrition. Compact programs aim to improve water systems, sanitation, access to markets, land tenure services, and agriculture in the targeted districts.

## Namibia

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The \$304 million Namibia Compact will improve the quality of education and training for underserved populations and will capitalize on Namibia's comparative advantages, including large areas of semi-arid communal land suitable for livestock and diverse wildlife and landscapes ideal for eco-tourism. These projects are designed to increase opportunities in rural areas and increase incomes.

## Nicaragua

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The \$113 million Nicaragua Compact was designed to reduce transportation costs, improve access to markets, strengthen property rights, increase investment, and raise incomes for farms and rural businesses. In June 2009, the MCC Board of Directors partially terminated the Nicaragua Compact as a result of political conditions in Nicaragua inconsistent with MCC's eligibility criteria. The compact was completed in May 2011.



## Philippines

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The \$434 million Philippines Compact includes funds to repair 220 kilometers of the country's Samar Road. This road will improve access to markets and services for farmers, fishers, and small businesses in some of the poorest provinces in the Philippines. The compact also includes funds to expand community development projects and to computerize and streamline business processes in the Bureau of Internal Revenue to bolster the effectiveness of revenue collection and reduce opportunities for corruption.

## Senegal

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The \$540 million Senegal Compact will reduce poverty and promote economic growth by unlocking the country's agricultural productivity, engaging in infrastructure projects to rehabilitate major national roads, and investing in strategic irrigation and water resources management.

## Tanzania

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The \$698 million Tanzania Compact seeks to rehabilitate roads to connect communities with markets, schools, and health clinics, and promote the expansion of economic opportunities by reducing transport costs. The compact also funds water infrastructure improvements that will increase access to potable water and will mitigate the incidence of water-related disease, burdensome healthcare costs, and decreased workforce productivity.

## Vanuatu

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The \$65 million Vanuatu Compact improved the country's poor road conditions by constructing and sealing two national roads, the Efate Ring road and the Santo East Coast road. The compact benefitted poor, rural agricultural producers and the tourism industry by reducing transportation costs and improving road conditions. The compact was completed in April 2011.

## Zambia

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The \$355 million Zambia Compact seeks to address one of Zambia's most binding constraints to economic growth through infrastructure investment in Lusaka, the rapidly urbanizing capital. The compact will invest in water supply, sanitation and drainage infrastructure in order to decrease the incidence and prevalence of water-related disease, reduce productive days lost due to disease and time spent collecting water, and lower costs. The compact will also support the Government of Zambia's ongoing water sector reform efforts by strengthening partner institutions.

## Threshold Programs: Improving Capacity, Reducing Corruption

The MCC Threshold Program is a country-driven partnership that aims to assist a country to become eligible for an MCC Compact by supporting policy and institutional reforms that target binding constraints to economic growth. A Threshold Program is developed through a rigorous, structured diagnostic process followed by program design and implementation. The country's record implementing a threshold program will provide the MCC Board of Directors with important information about: MCC's opportunity to reduce poverty and stimulate growth in that country through investment; and the threshold country partner's capacity and commitment to implementing policy and institutional reforms within the context of MCC's evidence driven model. To date, MCC has signed threshold program agreements with 21 countries totaling over \$495 million.

### Summary of MCC Threshold Programs

#### Albania

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Albania's \$13.8 million threshold program was focused on reducing corruption. The program included three programs designed to reform tax administration, public procurement, and business administration. The program sought to reduce bribes and bureaucracy related to starting a business, and to increase the national tax base. In October 2008, MCC signed a second, or Stage II, threshold program with Albania.

The \$15.7 million Stage II program built upon the successes of the first threshold program. Specifically, the program focused on anti-corruption through targeted reforms in the areas of public administration and judicial capacity building. The Albania programs are completed.

#### Burkina Faso

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Burkina Faso's \$12.9 million threshold program focused on increasing the number of girls completing primary education. The program included the construction of "girl-friendly" schools, teacher training, take-home dry rations to girls who maintain a 90 percent school attendance rate, and literacy training center for mothers. Burkina Faso completed its threshold program; it signed an MCC compact in July 2008.

#### Guyana

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Guyana's \$6.7 million threshold program sought to improve Guyana's fiscal policies and create a more business-friendly environment. The grant helped the Government of Guyana implement a new value-added tax system and develop ways to assist and educate taxpayers, while better planning and controlling spending. The program was designed to reduce the number of days and costs to start a business by modernizing and streamlining the business registration process. The Guyana program is completed.

## Indonesia

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Indonesia's \$55 million threshold program sought to immunize at least 80 percent of children under the age of one for diphtheria, tetanus, and pertussis and 90 percent of all children for measles. The program also included a component aimed at curbing public corruption by reforming the judiciary. Indonesia completed its threshold program; it signed an MCC compact in November 2011.

## Jordan

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Jordan's \$25 million threshold program was designed to strengthen democratic institutions by supporting Jordan's efforts to broaden public participation in the political and electoral process, increasing government transparency and accountability, and enhancing the efficiency and effectiveness of customs administration. Jordan completed its threshold program; it signed an MCC compact in October 2010.

## Kyrgyz Republic

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The Kyrgyz Republic's \$16 million threshold program sought to increase the independence and effectiveness of the judicial system, develop a more functional and trusted police force, improve the government's capacity to investigate and prosecute corruption cases, educate the public and media on the dangers of corruption and strengthen the financial disclosure system. The Kyrgyz program is completed.

## Kenya

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Kenya's \$12.7 million threshold program focused on reducing opportunities for corruption in public governance. The program targeted corruption in public procurement, the delivery of health care, and the monitoring and evaluation of reforms. The Kenya program is completed.

## Liberia

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Liberia's 3-year, \$15 million threshold program is promoting equal access to land and increased land security through better understanding of property rights issues and improved land administration. The program also focuses on improving girls' primary education enrollment and retention, and supports efforts to improve trade policy and practices, specifically in harmonizing tariffs, engaging regional and global bodies, and strengthening the regulatory environment. The Liberia program is expected to be completed in September 2013.

## Malawi

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Malawi's \$20.9 million threshold program focused on combating corruption, enhancing oversight functions, and building enforcement and deterrence capacity. The programs strived to create more effective legislative and judicial branches of government, provide support for anti-corruption agencies, strengthen independent media coverage, and expand the work of civil society organizations. Malawi completed its threshold program; it signed an MCC compact in April 2011.

## Moldova

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Moldova's \$24.7 million threshold program sought to reduce corruption in the public sector through reforms to the judicial, health, tax, and customs systems. The reforms complemented Moldova's national strategy aimed at reducing corruption. Moldova completed its threshold program; it signed an MCC compact in January 2010.

## Niger

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Niger's \$23 million threshold program focused on reducing public corruption within the health and education sectors; streamlining the process of starting a business; reducing the time and costs associated with land ownership transfer, land valuation, building permitting and notarization; and bolstering girls' education. In December 2009, MCC's Board of Directors voted to suspend MCC's \$23 million program with Niger based on Government of Niger actions inconsistent with MCC policies; assistance under the program was reinstated in December 2011. In August 2012, USAID began implementation of a \$2 million program to complete and extend the activities of Niger's original threshold program. The program, which was approved by the MCC Board of Directors in March 2012, will support school-based strategies to improve academic performance and to increase girls' enrollment, retention, and completion.

## Paraguay

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Paraguay's \$37 million threshold program was focused on reducing corruption. The program sought to strengthen the rule of law by increasing penalties for corruption and building a transparent business environment. Additionally, it included a business development component aimed at reducing the number of days necessary to start a business. In April 2009, MCC signed a second, or Stage II, threshold program with Paraguay.

The \$30 million Stage II program builds upon the successes of the first threshold program. The Stage II program focuses on anti-corruption efforts in sectors that are especially prone to corruption and are of economic importance, such as customs, law enforcement, healthcare and judicial sectors. The goal is not only to reduce opportunities for corruption and increase successful prosecution of wrongdoers, but also to improve public understanding and perception of these sectors, and reinforce the Government of Paraguay's commitment to combating corruption. The Paraguay II program was completed in July 2012.

## Peru

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Peru's \$35.6 million threshold program sought to increase immunization rates of children in rural areas against diseases like measles, diphtheria, pertussis and tetanus in eight targeted regions, and assist Peru's Ministry of Health in strengthening information and vaccination management systems. The program also helped Peru combat corruption by working with the government and civil society organizations to improve internal controls, as well as analyze and simplify administrative processes to reduce opportunities for corruption. The Peru Threshold Program was completed in September 2012.

## Philippines

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Philippines' \$22.1 million threshold program sought to improve revenue administration and anti-corruption efforts. Specifically, the program sought to reduce corruption by strengthening the Office of the Ombudsman and strengthen enforcement within three departments in the Department of Finance. Philippines completed its threshold program; it signed an MCC compact in September 2010.

## Rwanda

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Rwanda's \$24.7 million threshold program focused on strengthening civic participation and promoting civil liberties by providing training, technical support and grants to local and national civil society organizations, and supporting independent community radio stations to enhance citizen engagement. The program also reinforced Rwanda's efforts to support judicial capacity building, legislative reforms and improve overall public administration. The Rwanda program is completed.

## São Tomé and Príncipe

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São Tomé and Príncipe's \$8.66 million threshold program sought to increase revenue as a result of improved tax administration and enforcement. The program also modernized São Tomé and Príncipe's Customs Service to increase efficiency and reduce the time and cost of starting a business. The São Tomé and Príncipe program is completed.

## Timor-Leste

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Timor-Leste's \$10.5 million threshold program seeks to reduce corruption by building a network of functioning and effective anti-corruption institutions and actors through strengthening capacity, increasing coordination, and improving processes and procedures to deter and detect instances of corruption. The program also aims to improve access to immunization services through the creation of a more capable and effective community health system. The Timor-Leste program is expected to be completed in January 2014.

## Tanzania

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Tanzania's \$11.1 million threshold program focused on four specific anti-corruption initiatives, including building the nongovernmental sectors' monitoring capacity; strengthening the rule of law for good governance; establishing a Financial Intelligence Unit; and curbing corruption in public procurement. Tanzania completed its threshold program; it signed an MCC compact in February 2008.

## Uganda

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Uganda's \$10.4 million threshold program focused on reducing corruption by improving public procurement and financial management practices, strengthening the role of civil society, and building capacity to facilitate more effective follow-up of reported malpractices. The Uganda program is completed.

## Ukraine

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Ukraine's \$48.1 million threshold program focused on reducing corruption by strengthening civil society's ability to monitor and expose corruption. The program also enabled the Government of Ukraine to increase monitoring and enforcement of ethical and administrative standards. The Ukraine program is completed.

## Zambia

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Zambia's \$24.3 million threshold program focused on reducing corruption and improving government effectiveness. The program funded three components aimed at increasing control of corruption within the public sector, improving public service delivery to the private sector and strengthening border management of trade. Zambia completed its threshold program; it signed an MCC compact in May 2012.





## Selection Indicators

MCC uses a variety of indicators within the categories of economic freedom, investing in people, and ruling justly to determine country eligibility for program assistance. It looks at several elements in choosing selection indicators, including:

- Development by a third party
- Linkage to policies that the government can influence within a 2–3 year horizon
- Linkage—theoretically or empirically—to economic growth and poverty reduction
- Use of an analytically rigorous methodology and objective and high-quality data
- Broad country coverage and comparability across countries
- Consistency in results from year to year

The table below lists the indicators and sources of information used to determine country eligibility for MCC program assistance. The indicators are grouped by category.

Selection Indicators		
Category	Indicator	Source
Economic Freedom	Access to Credit Indicator	International Finance Corporation
	Business Start-Up Indicator	International Finance Corporation
	Fiscal Policy Indicator	International Monetary Fund
	Gender in the Economy Indicator	World Bank
	Inflation Indicator	International Monetary Fund
	Land Rights and Access Indicator	International Fund for Agricultural Development
	Regulatory Quality Indicator	World Bank/Brookings Institution
	Trade Policy Indicator	The Heritage Foundation
Investing in People	Child Health Indicator	Columbia/Yale
	Girls' Primary Education Completion Rate Indicator	UNESCO
	Girls' Secondary Education Enrollment Ratio Indicator	UNESCO
	Health Expenditures Indicator	World Health Organization
	Immunization Rates Indicator	WHO/UNICEF
	Natural Resource Protection	International Finance Corporation Columbia/Yale
	Primary Education Expenditures Indicator	UNESCO

## Appendix C

# MCC Country Selection Process

If you are reading a paper copy of this document, you will find the Selection Indicators table at the following MCC website address: <http://www.mcc.gov/pages/selection/indicators>.

The table on the website is sorted by indicator, category, and source. You can click on individual indicators and sources for additional information.

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If you are reading a paper copy of this document, you will find the website addresses for these documents in Appendix D.

Selection Indicators		
Category	Indicator	Source
Ruling Justly	Civil Liberties Indicator	Freedom House
	Control of Corruption Indicator	World Bank/Brookings Institution
	Freedom of Information Indicator	Freedom House Fringe
	Government Effectiveness Indicator	World Bank/Brookings Institution
	Political Rights Indicator	Freedom House
	Rule of Law Indicator	World Bank/Brookings Institution
	Voice and Accountability Indicator	World Bank/Brookings Institution

Use of Supplemental Information

MCC’s Board of Directors may also take into account other quantitative and qualitative information. It uses supplemental information to inform its understanding of a country’s policy performance relative to its peers, and MCC’s ability to reduce poverty and generate economic growth in a country.

There are elements of the eligibility criteria set out in MCC’s legislation for which there is either limited quantitative information or no well-developed performance indicator, so MCC may turn to supplemental sources for assessments of these policy issues. In addition, the Board may consider whether there are data gaps or lags in particular indicators that can be addressed by supplemental information.

Examples of the supplemental information used by MCC include the reports listed below.

- The U.S. Department of State’s Human Rights Report
- The U.S. Department of State’s Trafficking in Persons Report
- Transparency International’s Corruption Perceptions Index
- Global Integrity Report
- Freedom House’s Countries at the Crossroads
- The World Bank’s World Development Indicators
- The World Bank’s Doing Business Report
- The World Economic Forum’s Global Competitiveness Report

The following websites contain additional information related to MCC activities. This Appendix includes documents referenced in this report and will help readers who are reading a paper copy of this report locate the links embedded in the electronic version.

<http://www.mcc.gov>

MCC's website, which contains a wide variety of information about MCC's programs and activities.

<http://www.mcc.gov/pages/about/reports#reports-par>

The electronic version of the FY 2012 Agency Financial Report and previous reports, MCC's Annual Reports, and MCC's Congressional Budget Justification, which contain the Annual Performance Reports.

<https://www.mcc.gov/pages/contact>

Contact for comments or questions about the FY 2012 Agency Financial Report

<http://www.mcc.gov/pages/results/m-and-e#me-by-sector>

MCC's monitoring and valuation data by sector report

<http://www.mcc.gov/documents/reports/report-2011001066202-fy12-selection-criteria.pdf>

MCC's Selection Criteria and Methodology Report, FY 2012

<http://www.mcc.gov/pages/selection/indicators>

MCC Selection Indicators

<http://www.mcc.gov/pages/results/evaluations>

MCC Independent Impact Evaluations

<http://www.state.gov/j/drl/rls/hrrpt/index.htm>

The U.S. Department of State's Human Rights Report

<http://www.state.gov/j/tip/rls/tiprpt/index.htm>

The U.S. Department of State's Trafficking in Persons Report

<http://www.transparency.org/research/cpi/overview>

Transparency International's Corruption Perceptions Index

<http://data.worldbank.org/indicator>

Global Integrity Report

<http://www.freedomhouse.org/report/countries-crossroads/countries-crossroads-2012>

Freedom House's Countries at the Crossroads

## Appendix D

## Useful Websites

<http://data.worldbank.org/indicator>

The World Bank's World Development Indicators

<http://www.doingbusiness.org>

The World Bank's Doing Business Report

<http://www.transparency.org/research/cpi/overview>

The World Economic Forum's Global Competitiveness Report

<http://www.fasab.gov>

The Federal Accounting Standards Advisory Board website. The MCC prepares its financial statements in accordance with generally accepted accounting principles promulgated by FASAB.

[http://www.whitehouse.gov/omb/financial\\_offm\\_circulars/](http://www.whitehouse.gov/omb/financial_offm_circulars/)

OMB's website, which contains Circulars No. A-123 and A-136 that MCC follows to prepare its FMFIA and financial reporting.





# Reducing Poverty Through Growth



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